

FREDDIE MAC
FINANCIAL REPORT FOR THE THREE MONTHS ENDED
MARCH 31, 2007

**Information Statement Supplement to the 2006 Information Statement
and Annual Report to Stockholders, Dated March 23, 2007**

This Information Statement Supplement contains important financial and other information about Freddie Mac and supplements our Information Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2006, dated March 23, 2007, or 2006 Information Statement. Our 2006 Information Statement is supplemented periodically. All available supplements including this Information Statement Supplement should be read together with our 2006 Information Statement. We also provide information about the securities we issue in the offering circular for each securities program and any supplement for each particular offering. You can obtain copies of our 2006 Information Statement, offering circulars, available supplements, financial reports and other similar information by visiting our website (www.freddiemac.com) or by writing or calling us at:

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THIS INFORMATION STATEMENT SUPPLEMENT IS DATED JUNE 14, 2007

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This Information Statement Supplement includes forward-looking statements, which may include expectations and objectives related to our operating results, financial condition, business, remediation of internal controls, credit losses, market share and trends and other matters. You should not unduly rely on our forward-looking statements. Actual results might differ significantly from those described or implied in such forward-looking statements due to various factors and uncertainties, including those described in (i) "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," or MD&A, and "FORWARD-LOOKING STATEMENTS" in this Information Statement Supplement and in the comparably captioned sections of the 2006 Information Statement and (ii) the "BUSINESS" and "RISK FACTORS" sections of the 2006 Information Statement. These forward-looking statements are made as of the date of this Information Statement Supplement and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Information Statement Supplement, or to reflect the occurrence of unanticipated events.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
EXECUTIVE SUMMARY**

Our Business

Freddie Mac is a stockholder-owned company chartered by Congress in 1970 to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our mission is to provide liquidity, stability and affordability to the U.S. housing market. We fulfill our mission by purchasing residential mortgages and mortgage-related securities in the secondary mortgage market. We are one of the largest purchasers of mortgage loans in the U.S. We purchase mortgages and bundle them into mortgage-related securities that can be sold to investors. We can use the proceeds to purchase additional mortgages from primary market mortgage lenders, thus providing them with a continuous flow of funds. We also purchase mortgage loans and mortgage-related securities for our investments portfolio. We finance our purchases for our investments portfolio and manage associated interest-rate and other market risks primarily by issuing a variety of debt instruments and entering into derivative contracts in the capital markets.

Though we are chartered by Congress, our business is funded completely with private capital. We alone are responsible for making payments on our securities. Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities or other obligations.

We generate income primarily through two business activities — Retained portfolio investment activities and credit guarantee activities — operating as one business segment. To achieve our objective for long-term growth of the fair value of our net assets, we focus on three long-term business drivers — the profitability of new investment and guarantee business, growth in our investment and total credit guarantee portfolios and market share. Our requirements and responsibilities under the Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, and the U.S. Department of Housing and Urban Development, or HUD, affordable housing goals and subgoals require that we make trade-offs in our business that affect each of these drivers. In addition, we also make trade-offs due to competition and other market factors. Our purchases of mortgage loans benefiting low- and moderate-income families and neighborhoods are an integral part of our mission and business. We are committed to fulfilling the needs of these borrowers and markets.

Retained portfolio activities

Through our Retained portfolio investment activities, we seek to produce long-term growth in the fair value of our net assets, primarily by opportunistically purchasing mortgage assets that offer attractive investment returns while meeting the requirements of our charter and supporting the affordable housing goals and subgoals set for us by HUD. We estimate our expected investment returns using a mortgage-to-debt option-adjusted spread, or OAS, approach. We select our investments primarily based on these expected returns and our market expertise, regardless of the timing of the recognition of these returns in net income.

During the three months ended March 31, 2007, the unpaid principal balance of our Retained portfolio increased by 6 percent on an annualized basis, to approximately \$714 billion as liquidations slowed and wider mortgage-to-debt OAS increased attractive investment opportunities. As discussed in our 2006 Information Statement, we began managing our Retained portfolio under a voluntary temporary growth limit effective July 1, 2006. The carrying value of our Retained portfolio was approximately \$712 billion at March 31, 2007, approximately \$9 billion below the growth limit at March 31, 2007. We will keep our growth limit in place until after we return to producing and publicly releasing quarterly financial statements prepared in conformity with U.S. generally accepted accounting principles, or GAAP. While

operating under this limit, we continue to be selective about the new investments we make in order to achieve acceptable investment returns.

During the three months ended March 31, 2007, our average cost of funds remained significantly below the London Interbank Offered Rate, or LIBOR.

Credit guarantee activities

We seek to generate fair value growth through our credit guarantee activities by issuing guarantees that offer attractive long-term returns relative to anticipated credit costs. During the three months ended March 31, 2007 and 2006, the annualized growth rates of our credit guarantee portfolio were 16 percent and 13 percent, respectively. We estimate that our share of the government-sponsored enterprise, or GSE, securitization market increased to approximately 46 percent for the three months ended March 31, 2007 from approximately 45 percent for the three months ended March 31, 2006. However, we expect that our GSE market share will decline over the course of 2007.

The U.S. residential mortgage market continued to weaken during the three months ended March 31, 2007, as the rate of home price appreciation continued to decline with certain regional variation. Estimates of nationwide home price appreciation vary widely, with some indicating a slight overall decline in home prices and others indicating low single-digit growth. Home price appreciation is an important market indicator for us because it represents the general trend in value associated with the single-family mortgage loans underlying our Mortgage Participation Certificates, or PCs, and Structured Securities. As home prices appreciate, the risk of borrower defaults and the severity of credit losses generally declines.

The credit quality of our single-family credit guarantee portfolio remains strong, with a weighted average current loan-to-value, or LTV, ratio of approximately 58 percent at March 31, 2007, as compared with 57 percent at December 31, 2006. Our portfolio remains geographically well diversified. At March 31, 2007, long-term fixed-rate mortgages constituted more than 80 percent of our credit guarantee portfolio, despite an increase in the purchase of non-traditional mortgage products during the three months ended March 31, 2007 and for the year ended December 31, 2006. Interest-only mortgages comprised approximately 25 percent of purchases for the three months ended March 31, 2007 and approximately 6 percent of our total credit guarantee portfolio at March 31, 2007.

The total delinquency rate for our single-family credit guarantee portfolio declined to 50 basis points at March 31, 2007, as compared to 53 basis points at December 31, 2006. However, for the three months ended March 31, 2007, our single-family credit guarantee portfolio experienced increases in the rate at which loans transitioned from delinquency to foreclosure and higher losses on a per-property basis. As a result of the observed credit deterioration, we increased our loan loss reserves by \$125 million to \$545 million at March 31, 2007 from \$420 million at December 31, 2006. The impact of the weakening housing market was most evident in areas of the country where unemployment rates continued to be high, such as the North Central region. In contrast, the impact of the weakening housing market in East and West coastal regions of the country has generally been mitigated by the continued strength in those economies and relatively low unemployment rates.

The adverse trends in regional housing and employment markets and changes in interest rates were reflected in both our GAAP and fair value basis results through market-based valuation losses. These losses related to our guarantee assets and obligations and included losses on our PC residuals and losses on non-performing loans purchased from PC pools. During the three months ended March 31, 2007 and 2006, our valuation results included the following on a GAAP basis:

- Losses on the Guarantee asset of \$410 million compared with gains of \$160 million, respectively;
- Losses on PC residuals, a component of Gains (losses) on investment activity, of \$180 million compared with gains of \$186 million, respectively;
- Losses on certain credit guarantees of \$144 million and \$46 million, respectively; and
- Losses on loans purchased of \$170 million and \$21 million, respectively.

The fair values of our new and existing guarantee-related obligations have increased due to the expectation of higher actual default costs and implied future credit losses resulting from uncertainty in the mortgage market, including rising numbers of foreclosures, slower home sales and declining home prices. We estimate fair value for our guarantee obligation based on the amount we would expect to pay a third party with comparable credit quality to assume the obligation under our guarantee contract. We also estimate fair value for delinquent loans we purchase out of PC pools based on prices we obtain from third-party market participants. However, we have not traditionally transferred any of our guarantee obligations or sold delinquent loans to third parties. As a result, ultimate realization will be based primarily on the actual credit losses we experience on the underlying portfolio. We manage our mortgage credit risk on defaulted loans to minimize credit losses including the use of credit enhancements and loss mitigation activities. The fair value of our

Guarantee obligation and the delinquent loans reflected in our consolidated financial statements implies higher future credit losses than we expect to incur.

Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention of delinquent mortgage loans and provides alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and to assist borrowers to retain their homes. See “MD&A — RISK MANAGEMENT — Credit Risks — Mortgage Credit Risk — *Loss Mitigation Activities*” in our 2006 Information Statement for more information regarding our loss mitigation activities.

We measure credit losses at the point of foreclosure and through the disposition of the property. This provides a view of how leading indicators, such as valuation losses and increases to our loan loss reserves, are ultimately resolved. For the three months ended March 31, 2007, our credit losses, measured at the point of foreclosure and including real estate owned, or REO, operations expense through the disposition of those properties, remained near historically low levels at 1.5 basis points of the average Total mortgage portfolio on an annualized basis as compared to 1.2 basis points on an annualized basis for the three months ended March 31, 2006 and 1.4 basis points for full-year 2006.

Summary of Financial Results for the Three Months Ended March 31, 2007

GAAP Results

For the three months ended March 31, 2007, we reported a net loss of \$0.2 billion, or \$0.46 per diluted share, compared to net income of \$2.0 billion, or \$2.80 per diluted share, during the three months ended March 31, 2006. Lower net income was primarily due to higher fair value losses on our portfolio of derivatives and our single-family credit guarantee activities. Revenues declined modestly as lower Net interest income was partially offset by increased Management and guarantee income. The three months ended March 31, 2007 included higher Administrative expenses associated with improving our internal financial reporting and controls infrastructure and higher credit costs.

Net interest income was \$1.0 billion for the three months ended March 31, 2007, compared to \$1.1 billion for the three months ended March 31, 2006. The average balance of our interest-earning assets increased. Notwithstanding this improvement, net interest yield declined as we continued to replace maturing long-term debt with new debt at higher contractual interest rates.

Management and guarantee income increased to \$0.5 billion for the three months ended March 31, 2007 from \$0.4 billion for the three months ended March 31, 2006 as the average balance of outstanding PCs increased and the total guarantee fee rate decreased modestly.

For the three months ended March 31, 2007, other components of Non-interest income (loss) totaled \$(1.0) billion compared to \$0.9 billion for the three months ended March 31, 2006. The loss for the three months ended March 31, 2007 included \$1.2 billion of valuation losses, as compared to \$0.7 billion of valuation gains for the three months ended March 31, 2006. The change was primarily attributable to the impact of decreasing long-term interest rates and declining implied volatility, resulting in losses on our derivative portfolio, as well as losses related to the Guarantee asset associated with our securitization activities.

For the three months ended March 31, 2007 and 2006, our Provision (benefit) for credit losses and REO operations expense were \$193 million and \$(24) million, respectively. For the three months ended March 31, 2007, our provision for credit losses increased due to credit deterioration in our single-family credit guarantee portfolio as more loans transitioned through delinquency to foreclosure and the expected severity of losses on a per-property basis increased. This was driven in part by slower home price appreciation in certain areas and increased loan balances associated with REO from the East and West coastal regions. The benefit for credit losses for the three months ended March 31, 2006 included the reversal of \$84 million of reserves previously recorded for properties affected by Hurricane Katrina because related payment and delinquency experience on affected properties was better than expected.

Other non-interest expenses included Losses on certain credit guarantees and Losses on loans purchased which totaled \$314 million for the three months ended March 31, 2007, compared to \$67 million for the three months ended March 31, 2006. The increase was primarily due to losses related to higher expected credit costs recognized on certain guarantees associated with new business activity, a decline in the fair values of non-performing loans purchased out of PC pools and an increase in volume of non-performing loan purchases.

For the three months ended March 31, 2007, we reported an income tax benefit of \$439 million as compared to an income tax benefit of \$115 million for the three months ended March 31, 2006. The benefit for the three months ended March 31, 2007 resulted from a pre-tax book loss, tax benefits associated with our investments in low-income housing tax credit, or LIHTC, partnerships and interest earned on tax-exempt housing related securities.

Capital Management

Our primary objective in managing capital is preserving our safety and soundness. We also seek to have sufficient capital to support our business and mission. As appropriate, we will consider opportunities to return excess capital to stockholders and to optimize our capital structure. At March 31, 2007, our estimated regulatory core capital was \$36.2 billion, with an estimated regulatory minimum capital surplus of \$9.9 billion and \$2.0 billion in excess of the 30 percent mandatory target capital surplus.

During the three months ended March 31, 2007, we issued \$1.1 billion of non-cumulative, perpetual preferred stock, consisting of \$0.5 billion to complete our plan to replace \$2.0 billion of common stock with an equal amount of preferred stock and \$0.6 billion to replace higher-cost preferred stock that we redeemed during the three months ended March 31, 2007. Also, during the three months ended March 31, 2007, we received approval from our board of directors and the Office of Federal Housing Enterprise Oversight, or OFHEO, to repurchase up to an additional \$1.0 billion in common stock in conjunction with the issuance of up to \$1.0 billion in preferred stock. In connection with this authorization, we issued \$0.5 billion of non-cumulative, perpetual preferred stock during April 2007 and repurchased \$750 million (approximately 11.9 million shares) of common stock through May 31, 2007. We expect to continue to repurchase common stock in conjunction with the issuance of preferred stock under the new \$1.0 billion authorization from time to time depending on market conditions.

During the three months ended March 31, 2007, we paid a dividend per common share of \$0.50. Also, on June 8, 2007, our board of directors declared a dividend per common share of \$0.50 to be paid on June 29, 2007.

Fair Value Results

We believe fair value measures provide an important view of the economics and risks of our business because fair value takes a consistent approach to the measurement of substantially all financial assets and liabilities. We use estimates of fair value on a routine basis to make decisions about our business activities. Our consolidated fair value measurements are an important component of our risk management processes, as we use daily estimates of the changes in fair value to calculate our Portfolio Market Value Sensitivity, or PMVS, and duration gap measures. In addition, we use fair value derived performance measures to establish corporate objectives and as a factor in determining management compensation.

During the three months ended March 31, 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by \$0.3 billion, resulting in an annualized negative return on the average fair value of net assets attributable to common stockholders of approximately 4.4 percent, compared to a \$1.0 billion increase, or 14.8 percent annualized return, during the three months ended March 31, 2006.

Our attribution of changes in the fair value of net assets relies on models, assumptions and other measurement techniques that evolve over time. The following attribution of changes in fair value reflects our current estimate of the items presented (on a pre-tax basis) and excludes the effect of returns on capital and administrative expenses.

During the three months ended March 31, 2007, our investment activities increased fair value by approximately \$0.4 billion. This estimate includes declines in fair value of approximately \$0.3 billion attributable to the net widening of mortgage-to-debt OAS.

Our investment activities decreased fair value by an estimated \$0.1 billion during the three months ended March 31, 2006. This estimate includes reductions in fair value of approximately \$0.7 billion attributable to the net widening of mortgage-to-debt OAS.

Our credit guarantee activities decreased fair value by approximately \$1.2 billion during the three months ended March 31, 2007. This estimate includes a reduction in fair value of approximately \$2.0 billion attributable mainly to the increased uncertainty in the mortgage market. We believe that this increased uncertainty implies future credit losses that are higher than we expect to ultimately incur.

During the three months ended March 31, 2006, our credit guarantee activities increased fair value by an estimated \$1.1 billion. This estimate includes a reduction in fair value of approximately \$0.1 billion attributable mainly to changes in mortgage credit spreads.

Business Outlook — Fair Value Returns

We expect to achieve long-term returns, before capital transactions, on the average fair value of net assets attributable to common stockholders in the low-to mid-teens, although period-to-period returns may fluctuate substantially due to market conditions. These long-term expectations are based on assumptions regarding rates of growth in our business, spreads that we expect to earn and a return over a period of years to capital levels consistent with current statutory requirements, among other factors. Our assumptions do not contemplate that the challenging market conditions and competitive pressures we are currently experiencing will continue through the next several years. We have also made

no assumptions regarding any potential impact of pending legislation or regulatory actions, discussed more extensively in “Legislative and Regulatory Matters.” Our actual results may differ materially from these expectations.

Risk Management

Our Retained portfolio investment and credit guarantee activities expose us to three broad categories of risk: (a) operational risks; (b) interest-rate risk and other market risks; and (c) credit risks. Risk management is a critical aspect of our business. We must effectively manage risk to accomplish our mission and generate revenue and long-term value.

Operational Risks — Internal Control Over Financial Reporting

During the three months ended March 31, 2007, we continued to make progress on initiatives to improve our financial reporting infrastructure and remediate material weaknesses and other deficiencies in our internal controls. We continue to have a significant number of material weaknesses and other internal control deficiencies that have not been fully remediated and considerable challenges remain. See “RISK MANAGEMENT — Operational Risks” for additional information regarding our remediation activities.

Interest-Rate Risk

Our interest-rate risk remains low. For the three months ended March 31, 2007 and March 31, 2006, PMVS-Level, or PMVS-L, and duration gap averaged 1 percent and zero months, respectively.

Credit Risk

As discussed above, the credit quality of our guarantee portfolio remains strong. See “RISK MANAGEMENT — Credit Risks” for additional information about our credit risks and our strategies for managing them.

Legislative and Regulatory Matters

We face a highly uncertain regulatory environment in light of GSE regulatory oversight legislation currently under consideration in Congress. We generate a significant portion of our net income through our Retained portfolio. Currently, we have in place a voluntary temporary growth limit on our Retained portfolio. The House of Representatives passed GSE regulatory oversight legislation on May 22, 2007. This legislation would give our regulator substantial authority to assess our safety and soundness and to regulate our portfolio investments, including requiring reductions in those investments, consistent with our mission and safe and sound operations. This legislation includes provisions that would increase the regulator’s authority to require us to maintain higher minimum and risk-based capital levels and, for 2007 through 2011, require us to make an annual contribution to an affordable housing fund in an amount equal to 1.2 basis points of our average Total mortgage portfolio. This legislation also includes provisions that would give our regulator enhanced authority to regulate our business activities, which could constrain our ability to respond quickly to a changing marketplace. See “REGULATION AND SUPERVISION — GSE Regulatory Oversight Legislation” in our 2006 Information Statement for more information regarding this bill. We cannot predict the prospects for the enactment, timing or content of any final legislation. The provisions of this legislation could have a material adverse effect on our ability to fulfill our mission, future earnings, stock price and stockholder returns, rate of growth of fair value of net assets attributable to common stockholders and our ability to recruit and retain qualified officers and directors.

SELECTED FINANCIAL DATA AND OTHER OPERATING MEASURES⁽¹⁾

	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
(dollars in millions, except share-related amounts)							
Income Statement Data							
Net interest income	\$ 978	\$ 1,131	\$ 4,235	\$ 5,370	\$ 9,137	\$ 9,498	\$ 9,525
Non-interest income (loss)	(554)	1,347	915	199	(3,039)	(244)	7,154
Net income (loss) before cumulative effect of changes in accounting principles	(211)	2,009	2,211	2,189	2,937	4,816	10,090
Cumulative effect of changes in accounting principles, net of taxes	—	—	—	(59)	—	—	—
Net income (loss)	(211)	2,009	2,211	2,130	2,937	4,816	10,090
Net income (loss) available to common stockholders	\$ (306)	\$ 1,949	\$ 1,936	\$ 1,907	\$ 2,727	\$ 4,600	\$ 9,851
Earnings (loss) per common share before cumulative effect of changes in accounting principles:							
Basic	\$ (0.46)	\$ 2.81	\$ 2.84	\$ 2.84	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	(0.46)	2.80	2.84	2.83	3.94	6.68	14.17
Earnings (loss) per common share after cumulative effect of changes in accounting principles:							
Basic	\$ (0.46)	\$ 2.81	\$ 2.84	\$ 2.76	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	(0.46)	2.80	2.84	2.75	3.94	6.68	14.17
Dividends per common share	\$ 0.50	\$ 0.47	\$ 1.91	\$ 1.52	\$ 1.20	\$ 1.04	\$ 0.88
Weighted average common shares outstanding (in thousands):							
Basic	661,376	692,814	680,856	691,582	689,282	687,094	692,727
Diluted	661,376	694,596	682,664	693,511	691,521	688,675	695,116
Balance Sheet Data							
Total assets	\$ 819,830	\$ 819,067	\$ 813,081	\$ 806,222	\$ 795,284	\$ 803,449	\$ 752,249
Senior debt due within one year	280,242	294,553	294,861	288,532	282,303	295,262	244,429
Senior debt due after one year	472,638	465,137	452,677	454,627	443,772	438,738	415,662
Subordinated debt due after one year	5,224	5,636	6,400	5,633	5,622	5,613	5,605
Miscellaneous liabilities ⁽²⁾	31,438	27,506	30,326	29,290	30,662	30,420	52,914
Minority interests in consolidated subsidiaries	514	849	516	949	1,509	1,929	2,309
Stockholders' equity ⁽³⁾	29,774	25,386	28,301	27,191	31,416	31,487	31,330
Portfolio Balances⁽³⁾							
Retained portfolio (unpaid principal balances) ⁽⁴⁾	\$ 714,454	\$ 715,736	\$ 703,959	\$ 710,346	\$ 653,261	\$ 645,767	\$ 567,366
Total Guaranteed PCs and Structured Securities issued (unpaid principal balances) ⁽⁵⁾	1,536,525	1,379,877	1,477,023	1,335,524	1,208,968	1,162,068	1,090,624
Total mortgage portfolio (unpaid principal balances)	1,892,132	1,731,004	1,826,720	1,684,546	1,505,531	1,414,700	1,316,703
Ratios							
Return on average assets ⁽⁶⁾⁽⁷⁾	(0.1)%	1.0%	0.3%	0.3%	0.4%	0.6%	1.4%
Return on common equity ⁽⁷⁾⁽⁸⁾	(5.4)	36.0	8.6	7.7	10.2	17.2	47.2
Return on total equity ⁽⁷⁾⁽⁹⁾	(2.9)	30.6	8.0	7.3	9.3	15.3	39.6
Dividend payout ratio on common stock ⁽¹⁰⁾	N/A	16.8	67.7	56.4	30.7	15.6	6.2
Equity to assets ratio ⁽¹¹⁾	3.6	3.2	3.4	3.7	3.9	4.0	3.7

(1) Effective January 1, 2007, we adopted Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" and FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." See "SELECTED FINANCIAL DATA" in our 2006 Information Statement for information regarding accounting changes impacting periods prior to January 1, 2007.

(2) Includes (a) Due to Participation Certificate investors, (b) Accrued interest payable, (c) Guarantee obligation, (d) Derivative liabilities, at fair value, (e) Reserve for guarantee losses on Participation Certificates and (f) Other liabilities, as presented on our consolidated balance sheets.

(3) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(4) The Retained portfolio presented on our consolidated balance sheets differs from the Retained portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for more information.

(5) Excludes Structured Securities where we have restructured PCs and other previously issued Structured Securities. These excluded Structured Securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Also excluded from this line item are modifiable and combinable REMIC tranches and interest and principal classes where the holder has the option to exchange the security tranches for other pre-defined security tranches.

(6) Ratio computed as Net income (loss) divided by the simple average of beginning and ending Total assets.

(7) Ratios for the three months ended March 31, 2007 and 2006 are annualized.

(8) Ratio computed as Net income available to common stockholders divided by the simple average of beginning and ending Total stockholders' equity, net of Preferred stock, at redemption value.

(9) Ratio computed as Net income (loss) divided by the simple average of beginning and ending Total stockholders' equity.

(10) Ratio computed as Common stock dividends declared divided by Net income (loss) available to common stockholders. For the three months ended March 31, 2007, Net income (loss) available to common stockholders was a loss, thus this calculation is not applicable.

(11) Ratio computed as the simple average of beginning and ending Total stockholders' equity divided by the simple average of beginning and ending Total assets.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also see “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” for more information concerning the most significant accounting policies and estimates applied in determining our reported financial position and results of operations.

Table 1 — Summary Consolidated Statements of Income

	Three Months Ended March 31,	
	2007	2006
(in millions)		
Net interest income	\$ 978	\$1,131
Non-interest income (loss):		
Management and guarantee income	460	413
Gains (losses) on Guarantee asset	(410)	160
Income on Guarantee obligation	212	195
Derivative gains (losses)	(528)	273
Gains (losses) on investment activity	(183)	166
Foreign currency losses, net	(197)	(3)
Other	92	143
Non-interest income (loss)	(554)	1,347
Non-interest expense	(1,074)	(584)
Income (loss) before income tax benefit	(650)	1,894
Income tax benefit	439	115
Net income (loss)	<u>\$ (211)</u>	<u>\$2,009</u>

Net Interest Income

Table 2 presents an analysis of Net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 2 — Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended March 31,					
	2007			2006		
	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate	Average Balance ⁽¹⁾⁽²⁾	Interest Income (Expense)	Average Rate
(dollars in millions)						
Interest-earning assets:						
Mortgage loans ⁽³⁾	\$ 66,583	\$ 1,061	6.37%	\$ 62,777	\$ 1,040	6.62%
Mortgage-related securities	642,925	8,763	5.45	647,732	8,245	5.09
Total Retained portfolio	709,508	9,824	5.54	710,509	9,285	5.23
Investments ⁽⁴⁾	48,741	623	5.11	54,770	592	4.32
Securities purchased under agreements to resell and Federal funds sold	26,482	349	5.28	16,208	182	4.49
Total interest-earning assets	<u>784,731</u>	<u>10,796</u>	5.50	<u>781,487</u>	<u>10,059</u>	5.15
Interest-bearing liabilities:						
Short-term debt	171,249	(2,208)	(5.16)	188,758	(2,015)	(4.27)
Long-term debt ⁽⁵⁾	580,146	(7,176)	(4.95)	560,244	(6,433)	(4.59)
Total debt securities	751,395	(9,384)	(5.00)	749,002	(8,448)	(4.51)
Due to Participation Certificate investors	7,667	(103)	(5.37)	6,979	(91)	(5.19)
Total interest-bearing liabilities	759,062	(9,487)	(5.00)	755,981	(8,539)	(4.52)
Expense related to derivatives		(331)	(0.17)		(389)	(0.20)
Impact of net non-interest-bearing funding	25,669	—	0.17	25,506	—	0.15
Total funding of interest-earning assets	<u>\$784,731</u>	<u>(9,818)</u>	(5.00)	<u>\$781,487</u>	<u>(8,928)</u>	(4.57)
Net interest income/yield		978	0.50		1,131	0.58
Fully taxable-equivalent adjustments ⁽⁶⁾		95	0.05		92	0.05
Net interest income/yield (fully taxable-equivalent basis)		<u>\$ 1,073</u>	0.55		<u>\$ 1,223</u>	0.63

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) For securities classified as available-for-sale, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (e.g., premiums and discounts), but excluded the effects of mark-to-fair-value changes. For securities in the Retained portfolio classified as trading, we calculated average balances excluding the effects of mark-to-fair-value adjustments.

(3) Non-performing loans, where interest income is recognized when collected, are included in average balances.

(4) Consists of Cash and cash equivalents and non-mortgage-related securities.

(5) Includes current portion of long-term debt.

(6) The determination of Net interest income/yield (fully taxable-equivalent basis), which reflects fully taxable-equivalent adjustments to interest income, involves the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes using our statutory tax rate of 35 percent.

Net interest income and net interest yield on a fully taxable-equivalent basis decreased in the three months ended March 31, 2007, compared to the three months ended March 31, 2006, as nominal spreads on fixed-rate investments

narrowed, driven by a flattening yield curve. Our long-term debt interest costs increased during the three months ended March 31, 2007, reflecting the turnover of debt that we issued during the past few years to fund our investments in fixed-rate mortgage-related investments when the yield curve was steep (*i.e.*, short- and medium-term interest rates were low as compared to long-term interest rates). As the yield curve flattened during 2006, we experienced increased funding costs associated with replacing maturing lower-cost debt used to fund existing fixed-rate mortgage investments. The impact of higher short-term rates on our short-term debt was largely offset by the impact of rising rates on our variable-rate assets in our Retained portfolio and our cash and investments portfolio.

Effective January 1, 2006, we enhanced our process for forecasting interest rates and estimating prepayments used to amortize discounts, premiums and deferred fees for assets held in our Retained portfolio. This change in estimate resulted in a \$93 million pre-tax reduction in Net interest income on mortgage-related securities for the three months ended March 31, 2006.

Non-Interest Income (Loss)

Management and Guarantee Income

Table 3 provides summary information about Management and guarantee income. Management and guarantee income consists of contractual amounts due to us related to our management and guarantee fee as well as amortization of certain pre-2003 deferred fees, including credit and buy-down fees. Other guarantee-related revenue is deferred and recognized over time as a component of Income on Guarantee obligation.

Table 3 — Management and Guarantee Income⁽¹⁾

	Three Months Ended March 31,			
	2007		2006	
	Amount	Rate	Amount	Rate
	(dollars in millions, rate in basis points)			
Contractual management and guarantee fees	\$451	15.8	\$387	15.5
Amortization of credit and buy-down fees included in Other liabilities ⁽²⁾	9	0.3	26	1.0
Total Management and guarantee income	<u>\$460</u>	<u>16.1</u>	<u>\$413</u>	<u>16.5</u>
Unamortized balance of credit and buy-down fees included in Other liabilities, at period end	<u>\$128</u>		<u>\$176</u>	

(1) Excludes amounts related to PCs we held in our Retained portfolio, which are reported in Net interest income.

(2) A change in estimate resulted in a net pre-tax increase in the Amortization of credit and buy-down fees of \$18 million during the three months ended March 31, 2006.

Management and guarantee income increased for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006, primarily reflecting a 14 percent increase in average outstanding PCs and Structured Securities. The average contractual management and guarantee fee rate increased primarily due to an increase in buy-up activity in late 2006 and the three months ended March 31, 2007, where we make payments at securitization to counterparties resulting in a higher contractual guarantee fee rate over the life of the related PCs.

Gains (Losses) on Guarantee Asset

Upon issuance of a guarantee of securitized assets to third parties, we record a Guarantee asset on our consolidated balance sheets representing the fair value of the guarantee fees we expect to receive over the life of the related PCs and Structured Securities. Subsequent changes in the fair value of the Guarantee asset are reported in current period income as Gains (losses) on Guarantee asset.

The change in fair value of the Guarantee asset reflects:

- reductions related to the contractual guarantee fees received that are considered a return of our recorded investment in the Guarantee asset; and
- future guarantee fees we expect to receive over the life of the related PC or Structured Security.

Table 4 — Attribution of Change — Gains (Losses) on Guarantee Asset

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Contractual guarantee fees due	\$(419)	\$(351)
Portion of contractual guarantee fees due related to imputed interest income	107	107
Return of investment on Guarantee asset	(312)	(244)
Change in fair value of future cash flows	(73)	364
Change in estimate ⁽¹⁾	(25)	40
Gains (losses) on Guarantee asset	<u>\$(410)</u>	<u>\$ 160</u>

(1) Represent changes in estimates resulting from enhancing our approach for estimating prepayment rates used in amortization of deferred fees for the three months ended March 31, 2007 and for determining the fair value of the Guarantee asset for the three months ended March 31, 2006.

As shown on Table 4, Contractual guarantee fees due represent our receipt of Management and guarantee income in the current period related to PCs and Structured Securities held by third parties with an established Guarantee asset. A portion of Contractual guarantee fees due is attributed to imputed interest income on the Guarantee asset. Contractual guarantee fees due increased for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006, primarily due to the 14 percent increase in average outstanding PCs and Structured Securities.

The fair value of expected future cash flows is driven by expected changes in interest rates and related discount rates that affect the estimated life of the mortgages underlying the outstanding PCs and Structured Securities. Our valuation methodology for the Guarantee asset uses market-based information, including market values of excess servicing, interest-only securities, to determine the fair value of future cash flows associated with the Guarantee asset. Changes in the fair value of the Guarantee asset, which are recorded in current period earnings through Gains (losses) on Guarantee asset, reflect the volatility associated with the market-based inputs used in our valuation. Changes in the estimated lives of the underlying mortgages also affect the fair value of the Guarantee asset.

We recognized fair value losses on the Guarantee asset as a result of interest rate movements and widening spreads on excess servicing, interest-only securities during the three months ended March 31, 2007. We recognized gains on the Guarantee asset during the three months ended March 31, 2006, due primarily to increases in interest rates which extended the expected life of the Guarantee asset.

Income on Guarantee Obligation

Upon issuance of a guarantee of securitized assets to third parties, we record a Guarantee obligation on our consolidated balance sheet representing the fair value of our obligation to perform under the terms of the guarantee. Our Guarantee obligation is amortized into income in relation to the decline in the unpaid principal balance on the mortgage loans underlying the PCs and Structured Securities. Our Guarantee obligation consists of the following:

- Performance and other related costs, which consist of: estimated default costs, including unrecoverable principal and interest over the expected life of the underlying mortgages; estimated foreclosure-related costs; and estimated administrative and other costs related to our guarantee; and
- Deferred guarantee income on newly-issued Guarantor Swap transactions, which represents the excess of compensation received on issued guarantees and the fair value of our related Guarantee asset, as compared to the fair value of our corresponding Guarantee obligation. Compensation received includes credit and buy-down fees received at the time of securitization. Credit fees vary with the relative credit quality of the underlying mortgages and buy-down fees vary based on customer compensation payment preferences.

Table 5 provides information about the components of Income on Guarantee obligation.

Table 5 — Income on Guarantee Obligation

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Amortization income related to:		
Performance and other related costs	\$ 140	\$ 133
Deferred guarantee income	72	62
Total Income on Guarantee obligation	<u>\$ 212</u>	<u>\$ 195</u>
Ending Guarantee obligation	\$7,760	\$5,904
Liquidation rate for outstanding PCs and Structured Securities	15%	15%

Income on Guarantee obligation increased for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006, due to the increase in the balance of our Guarantee obligation reflecting the increase in our portfolio of outstanding PCs and Structured Securities and increased expected Performance and other related costs

associated with newly-issued guarantees. Income on Guarantee obligation includes \$47 million and \$37 million of amortization related to deferred credit and buy-down fees received from counterparties in Guarantor Swap and similar transactions, or “upfront fees,” for the three months ended March 31, 2007 and 2006, respectively.

Derivative Overview

Table 6 presents the notional amount for each of our hedge accounting classifications and the corresponding impact of those positions on our consolidated financial statements.

Table 6 — Summary of the Effect of Derivatives on Selected Consolidated Financial Statement Captions

Description	Consolidated Balance Sheets					
	March 31, 2007			December 31, 2006		
	Notional Amount ⁽¹⁾	Fair Value (Pre-Tax) ⁽²⁾	AOCI (Net of Tax) ⁽³⁾	Notional Amount ⁽¹⁾	Fair Value (Pre-Tax) ⁽²⁾	AOCI (Net of Tax) ⁽³⁾
	(in millions)					
Cash flow hedges-open	\$ 1,407	\$ (4)	\$ (2)	\$ 70	\$ —	\$ —
No hedge designation	905,201	5,933	—	757,127	7,729	—
Subtotal	906,608	5,929	(2)	757,197	7,729	—
Balance related to closed cash flow hedges	—	—	(4,792)	—	—	(5,033)
Total	<u>\$906,608</u>	<u>\$5,929</u>	<u>\$(4,794)</u>	<u>\$757,197</u>	<u>\$7,729</u>	<u>\$(5,033)</u>
	Consolidated Statements of Income					
	Three Months Ended March 31,					
	2007		2006			
Description	Derivative Gains (Losses)	Derivative Gains (Losses)	Derivative Gains (Losses)	Derivative Gains (Losses)		
	(in millions)					
No hedge designation	\$ (528)	\$ 273				

- (1) Notional amounts are used to calculate the periodic settlement amounts to be received and paid and generally do not represent actual amounts to be exchanged. Notional amounts are not recorded as assets or liabilities on our consolidated balance sheets.
- (2) The fair values of derivatives (netted by counterparty) are presented as Derivative assets, at fair value and Derivative liabilities, at fair value on our consolidated balance sheets.
- (3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open cash flow hedges are recorded in Accumulated other comprehensive income (loss), or AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.

As discussed in our 2006 Information Statement, by the end of 2006 we had discontinued nearly all of our cash flow hedge accounting relationships and all of our fair value hedge accounting relationships. At March 31, 2007, the only derivatives in cash flow hedge accounting relationships were certain commitments to forward sell mortgage-related securities. We record changes in the fair value of derivatives not in hedge accounting relationships as Derivative gains (losses) on our consolidated statements of income. See “NOTE 10: DERIVATIVES” to our consolidated financial statements for additional information about our derivatives.

Derivative Gains (Losses)

Table 7 provides a summary of the period-end notional amounts and the gains and losses related to derivatives that were not accounted for in hedge accounting relationships.

Table 7 — Derivatives Not in Hedge Accounting Relationships

	Three Months Ended March 31,			
	2007		2006	
	Notional or Contractual Amount	Derivative Gains (Losses)	Notional or Contractual Amount	Derivative Gains (Losses)
	(in millions)			
Call swaptions:				
Purchased	\$194,772	\$(553)	\$139,165	\$(1,313)
Written	7,500	2	—	—
Put swaptions:				
Purchased	19,325	(8)	36,925	237
Written	500	(2)	—	—
Receive-fixed swaps	270,053	259	134,830	(1,220)
Pay-fixed swaps	251,391	(478)	175,005	2,881
Futures	95,140	19	103,780	(266)
Foreign-currency swaps	23,854	198	748	4
Other ⁽¹⁾	42,666	(4)	49,219	(47)
Subtotal	905,201	(567)	639,672	276
Accrual of periodic settlements:				
Receive-fixed swaps ⁽²⁾		(58)		(6)
Pay-fixed swaps		148		3
Foreign-currency swaps		(52)		—
Other		1		—
Total accrual of periodic settlements		39		(3)
Total	<u>\$905,201</u>	<u>\$(528)</u>	<u>\$639,672</u>	<u>\$ 273</u>

(1) Consists of basis swaps, certain option-based contracts (including written options), interest-rate caps, forward purchase and sale commitments, credit derivatives and swap guarantee derivatives not accounted for in hedge accounting relationships.

(2) Includes imputed interest on zero-coupon swaps.

Derivative gains (losses) reflects the change in the fair value of and the accrual of periodic settlements of all derivatives not in hedge accounting relationships.

We use receive- and pay-fixed swaps to adjust the interest-rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets. During the three months ended March 31, 2007, fair value changes of our receive- and pay-fixed swaps were primarily driven by decreases in swap interest rates across the yield curve compared to increases in swap interest rates during the three months ended March 31, 2006. During the three months ended March 31, 2007, fair value losses on our pay-fixed swaps were partially offset by gains on our receive-fixed swaps as swap interest rates decreased. We use swaptions and other option-based derivatives to adjust the characteristics of our debt in response to changes in the expected lives of mortgage-related assets in our Retained portfolio. The losses on our purchased swaptions, which declined during the three months ended March 31, 2007, compared to the three months ended March 31, 2006, were attributable to decreasing swap interest rates and a decline in implied volatility during the three months ended March 31, 2007.

The accrual of periodic settlements for derivatives not in qualifying hedge accounting relationships increased from a loss for the three months ended March 31, 2006 to a gain for the three months ended March 31, 2007 as short-term interest rates increased and the net income due on our pay-fixed swaps was only partly offset by the net expense due on our receive-fixed swaps. The change in the accrual of periodic settlements also reflects the increases in the notional balances of our receive-fixed swaps and foreign-currency swaps.

During 2006, we voluntarily discontinued hedge accounting for our receive-fixed and foreign-currency swaps. See “NOTE 10: DERIVATIVES” to our consolidated financial statements for additional information about our derivatives.

Gains (Losses) on Investment Activity

Table 8 summarizes the components of Gains (losses) on investment activity.

Table 8 — Gains (Losses) on Investment Activity

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Gains (losses) on trading securities	\$ 31	\$ (46)
Gains (losses) on PC residuals, at fair value	(180)	186
Gains on sale of mortgage loans ⁽¹⁾	20	21
Gains on sale of available-for-sale securities	51	146
Security impairments:		
Interest-only security impairments	(2)	(5)
Other security impairments	(101)	(128)
Total security impairments	(103)	(133)
Lower-of-cost-or-market adjustments	(2)	(8)
Total Gains (losses) on investment activity	<u>\$(183)</u>	<u>\$ 166</u>

(1) Represents mortgage loans sold in connection with securitization transactions.

Gains (losses) on PC residuals, at fair value

Gains (losses) on PC residuals relate to certain PCs and Structured Securities we hold in our Retained portfolio and represent the net fair value of the future cash inflows and outflows related to our guarantee of these securities. The fair value of PC residuals is affected by several factors including: (a) changes in interest rates, which affect the expected lives of the related PCs and Structured Securities; (b) default experience and loss severity trends related to our guarantees; and (c) third party information with respect to fair value.

For the three months ended March 31, 2007, the net loss on PC residuals associated with PCs and Structured Securities we hold in our Retained portfolio resulted from the expectation of higher actual default costs and increased uncertainty in the mortgage market, including rising numbers of foreclosures, slower home sales and declining home prices. The net gain on PC residuals for the three months ended March 31, 2006 resulted from increasing interest rates that extended the expected lives of related PCs and Structured Securities.

Gains on sale of available-for-sale securities

Gains on sale of available-for-sale securities declined for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006. The three months ended March 31, 2006 included net gains of approximately \$136 million related to the sale of certain commercial mortgage-backed securities, or CMBS, that involved cash flows from mixed pools of multifamily and non-residential commercial mortgages.

Total security impairments

Total security impairments for the three months ended March 31, 2007, included \$101 million related to mortgage-related securities where we determined that a decline in fair value below amortized cost was other-than-temporary due to the deterioration of the credit quality of the underlying mortgage loans or we did not have the intent to hold the security until the loss would be recovered. For the three months ended March 31, 2006, total security impairments included \$87 million related to declines in fair value below amortized cost due to increased interest rates and \$41 million related to impairments of certain CMBS.

Foreign Currency Losses, Net

We actively manage the foreign-currency exposure associated with our foreign-currency denominated debt using derivatives. For the three months ended March 31, 2007, we recognized net foreign-currency translation losses primarily related to our foreign-currency denominated debt of \$197 million as the U.S. dollar weakened relative to the Euro during the period. This offsets an increase of \$198 million in the fair value of foreign-currency-related derivatives during the period, recorded in Derivative gains (losses). During 2006, we voluntarily discontinued hedge accounting for our foreign-currency swaps. See “*Derivative Gains (Losses)*” and “NOTE 10: DERIVATIVES” to our consolidated financial statements for additional information about our derivatives.

Non-Interest Expense

Table 9 summarizes the components of Non-interest expense.

Table 9 — Non-Interest Expense

	Three Months Ended	
	March 31,	
	2007	2006
	(in millions)	
Administrative expenses:		
Salaries and employee benefits	\$ 228	\$191
Professional services	108	100
Occupancy expense	14	14
Other administrative expenses	53	68
Total administrative expenses	403	373
Provision (benefit) for credit losses	179	(36)
REO operations expense	14	12
Losses on certain credit guarantees	144	46
Losses on loans purchased	170	21
Low-income housing tax credit partnerships	108	115
Minority interests in earnings of consolidated subsidiaries	9	18
Other expenses	47	35
Total Non-interest expense	<u>\$1,074</u>	<u>\$584</u>

Administrative Expenses

Administrative expenses increased for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, as additional employees were hired to support our financial reporting and infrastructure-related activities. Also, in connection with our efforts to recruit new talent and retain existing employees, employee incentive compensation costs, such as employee stock compensation, special incentive and other awards, increased.

Provision (Benefit) for Credit Losses

The provision for credit losses increased for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, as the continued weakness in the housing market affected our single-family portfolio. For the three months ended March 31, 2007, we recorded additional reserves for credit losses on our single-family portfolio as a result of:

- increased estimates of incurred losses with respect to loans that are expected to experience higher default rates based on their year of origination, particularly those originated during 2006 which do not have the benefit of significant home price appreciation;
- an observed increase in the transition rates of loans through delinquency to foreclosure and corresponding increases in the number of properties that we acquired as REO; and
- increases in the expected severity of losses on a per-property basis, driven in part by the expectation of low or slower home price appreciation in certain areas and higher loan balances associated with 2005 and 2006 originations.

In addition, for the three months ended March 31, 2006, we reversed \$84 million of the provision for credit losses recorded in 2005 associated with Hurricane Katrina because the related payment and delinquency experience on affected properties was more favorable than expected. Absent the adjustment related to Hurricane Katrina, the provision for credit losses would have been \$48 million for the three months ended March 31, 2006.

We expect that credit losses, which include net charge-offs and REO expenses, will rise from the current historically low levels.

Losses on Certain Credit Guarantees

Losses on certain credit guarantees consists of losses recognized upon the issuance of PCs in Guarantor Swap transactions. We negotiate contracts with our customers in Guarantor Swap transactions based upon our view of the overall economics of the transaction, considering the volume and types of mortgage loans to be delivered to us and our estimates of the net present value of related future guarantee fees, credit costs and other associated cash flows. However, the accounting for our guarantee-related assets and liabilities is not determined at the level at which we negotiate contracts; rather, it is determined separately for each PC-related pool of loans. We determine the initial fair value of the pool-level guarantee-related assets and liabilities using methodologies that employ direct market-based information that may differ from the estimates we use to negotiate the guarantee fees we charge customers. This accounting based on

pool-level measurement and our use of market-based information results in the recognition of Losses on certain credit guarantees.

For each loan pool created, we compare the initial fair value of the related Guarantee obligation to the initial fair value of the related Guarantee asset and credit enhancement-related assets. If the Guarantee obligation is greater than the guarantee-related assets, we immediately recognize a loss equal to the difference with respect to that pool. If the Guarantee obligation is less than the guarantee-related assets, no initial gain is recorded; rather, guarantee income equal to the difference is deferred as an addition to the Guarantee obligation and is recognized as that liability is amortized. Accordingly, Guarantor Swap transactions may result in some loan pools for which a loss is recognized immediately in earnings and other loan pools for which guarantee income is deferred. We record these initial losses as Losses on certain credit guarantees.

For the three months ended March 31, 2007 and 2006, we realized losses of \$144 million and \$46 million, respectively, on certain Guarantor Swap transactions entered into during those periods. The increase in Losses on certain credit guarantees was driven by a combination of higher expected future credit costs implied by market fair values and competitive pressure impacting fair values of newly-issued guarantees.

Losses on Loans Purchased

Losses on non-performing loans purchased from the mortgage loan pools underlying PCs and Structured Securities held by third parties occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase.

In the three months ended March 31, 2007, the market-based valuation of nonperforming loans was adversely affected by the expectation of higher actual default costs and increased uncertainty in the mortgage market, including rising numbers of foreclosures, slower home sales and declining home prices. The decrease in fair values of these loans, combined with an increase in the volume of purchases of non-performing loans, resulted in losses of \$170 million compared to \$21 million for the three months ended March 31, 2007 and 2006, respectively. We expect that a portion of the losses on loans purchased will be recovered over time as these market-based valuations imply future credit losses that are higher than we expect to ultimately incur. See “RISK MANAGEMENT — Credit Risks — Table 25 — Changes in Loans Purchased Under Financial Guarantees” for additional information about non-performing loans purchased.

Income Tax Benefit

For the three months ended March 31, 2007 and 2006, we reported income tax benefits of \$439 million and \$115 million, respectively, representing effective tax rates of 68 percent and (6) percent, respectively. The effective tax rate for the three months ended March 31, 2007 is attributable to a pre-tax book loss and tax-favorable adjustments related to our investments in LIHTC partnerships and interest earned on tax-exempt housing-related securities. For the three months ended March 31, 2006, we had pre-tax book income and our effective tax rate benefited from tax reserve releases, as well as tax favorable adjustments related to our investments in LIHTC partnerships and interest earned on tax-exempt housing-related securities. See “NOTE 12: INCOME TAXES” to our consolidated financial statements for additional information about how our effective tax rate was determined.

We expect tax credits resulting from our investments in LIHTC partnerships to continue to grow. However, our ability to use all of the tax credits generated by existing or future investments in LIHTC partnerships to reduce our federal income tax liability may be limited.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The following discussion of our consolidated balance sheets should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also see “CRITICAL ACCOUNTING POLICIES AND ESTIMATES” for more information concerning our significant accounting policies applied in determining our reported financial position.

Retained Portfolio

As described in the “BUSINESS” section of our 2006 Information Statement, beginning July 1, 2006, we voluntarily limited the growth of our Retained portfolio. At March 31, 2007, the carrying value of the Retained portfolio was approximately \$712 billion, which was below the voluntary limit for the period of approximately \$721 billion.

Table 10 provides detail regarding the mortgage loans and mortgage-related securities in our Retained portfolio.

Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio

	March 31, 2007			December 31, 2006		
	Fixed-Rate	Variable-Rate ⁽¹⁾	Total	Fixed-Rate	Variable-Rate ⁽¹⁾	Total
	(in millions)					
Mortgage loans.....	\$ 62,753	\$ 4,383	\$ 67,136	\$ 61,273	\$ 4,574	\$ 65,847
Guaranteed PCs and Structured Securities: ⁽²⁾						
Single-family	280,357	78,110	358,467	282,052	71,828	353,880
Multifamily.....	240	140	380	241	141	382
Total Guaranteed PCs and Structured Securities	280,597	78,250	358,847	282,293	71,969	354,262
Non-Freddie Mac mortgage-related securities:						
Agency mortgage-related securities: ⁽³⁾						
Federal National Mortgage Association, or Fannie Mae:						
Single-family	25,091	17,784	42,875	25,805	17,640	43,445
Multifamily.....	886	2	888	987	2	989
Government National Mortgage Association, or Ginnie Mae:						
Single-family	653	218	871	707	231	938
Multifamily.....	13	—	13	13	—	13
Total agency mortgage-related securities	26,643	18,004	44,647	27,512	17,873	45,385
Non-agency mortgage-related securities:						
Single-family	3,889	173,703	177,592	4,280	174,081	178,361
CMBS.....	23,865	26,909	50,774	23,768	20,992	44,760
Mortgage revenue bonds ⁽⁴⁾	13,912	72	13,984	13,760	74	13,834
Manufactured housing ⁽⁵⁾	1,353	121	1,474	1,381	129	1,510
Total non-agency mortgage-related securities ⁽⁶⁾	43,019	200,805	243,824	43,189	195,276	238,465
Total unpaid principal balance of Retained portfolio.....	\$413,012	\$301,442	714,454	\$414,267	\$289,692	703,959
Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments			(532)			103
Net unrealized gains (losses) on mortgage-related securities, pre-tax			(2,118)			(4,046)
Participation Certificate residuals, at fair value			339			597
Reserve for losses on mortgage loans held-for-investment			(92)			(70)
Total Retained portfolio per consolidated balance sheets			\$712,051			\$700,543

- (1) Variable-rate mortgage loans and mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral. Mortgage loans also include mortgages with balloon/reset provisions.
- (2) For Guaranteed PCs and Structured Securities we issue, we are subject to the credit risk associated with the underlying mortgage loan collateral.
- (3) Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities rated AAA or equivalent.
- (4) Consists of obligations of states and political subdivisions. Approximately 67 percent of these securities were AAA-rated at both March 31, 2007 and December 31, 2006.
- (5) At March 31, 2007 and December 31, 2006, 37 percent and 38 percent, respectively, of mortgage-related securities backed by manufactured housing were rated BBB— or above. For the same dates, 97 percent of these securities were supported by third-party credit enhancements (e.g., bond insurance) and other credit enhancements (e.g., deal structure through subordination). Approximately 29 percent and 30 percent of these securities were AAA-rated at March 31, 2007 and December 31, 2006, respectively.
- (6) Credit ratings for most non-agency mortgage-related securities are designated by at least two nationally recognized statistical rating organizations. At both March 31, 2007 and December 31, 2006, approximately 96 percent of total non-agency mortgage-related securities were AAA-rated.

Derivative Assets and Liabilities, at Fair Value

Table 11 shows the notional amount and fair value for each derivative type and the maturity profile of the derivative positions. The fair values of the derivative positions are presented on a product-by-product basis, without netting by counterparty.

Table 11 — Derivative Fair Values and Maturities

	March 31, 2007					
	Notional Amount	Total Fair Value	Fair Value ⁽¹⁾			
			Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
(dollars in millions)						
Interest-rate swaps:						
Receive-fixed:						
Swaps	\$257,025	\$ (88)	\$ (140)	\$ (85)	\$ 338	\$ (201)
Weighted average fixed-rate ⁽²⁾			4.68%	5.04%	5.04%	5.48%
Forward-starting swaps ⁽³⁾	13,028	(4)	—	—	(2)	(2)
Weighted average fixed-rate			—	—	4.84%	5.42%
Total receive-fixed	<u>270,053</u>	<u>(92)</u>	<u>(140)</u>	<u>(85)</u>	<u>336</u>	<u>(203)</u>
Basis (floating to floating)	548	—	—	—	—	—
Pay-fixed:						
Swaps	181,655	(159)	78	(142)	(148)	53
Weighted average fixed-rate ⁽²⁾			4.64%	5.12%	5.10%	5.15%
Forward-starting swaps ⁽³⁾	69,736	(1,514)	—	—	(2)	(1,512)
Weighted average fixed-rate			—	—	5.20%	5.73%
Total pay-fixed	<u>251,391</u>	<u>(1,673)</u>	<u>78</u>	<u>(142)</u>	<u>(150)</u>	<u>(1,459)</u>
Total interest-rate swaps	<u>521,992</u>	<u>(1,765)</u>	<u>(62)</u>	<u>(227)</u>	<u>186</u>	<u>(1,662)</u>
Option-based:						
Call swaptions:						
Purchased	194,772	3,270	20	689	1,302	1,259
Written	7,500	(62)	(23)	(22)	(17)	—
Put swaptions:						
Purchased	19,325	651	—	17	163	471
Written	500	(20)	—	—	(20)	—
Other option-based derivatives ⁽⁴⁾	29,651	(28)	(17)	—	—	(11)
Total option-based	<u>251,748</u>	<u>3,811</u>	<u>(20)</u>	<u>684</u>	<u>1,428</u>	<u>1,719</u>
Futures	95,140	25	25	—	—	—
Foreign-currency swaps	23,854	3,864	634	214	2,141	875
Forward purchase and sale commitments	10,322	(3)	(3)	—	—	—
Swap guarantee derivatives	984	(3)	—	—	—	(3)
Subtotal	<u>904,040</u>	<u>5,929</u>	<u>\$ 574</u>	<u>\$ 671</u>	<u>\$3,755</u>	<u>\$ 929</u>
Credit derivatives	2,568	—	—	—	—	—
Total	<u>\$906,608</u>	<u>\$ 5,929</u>				

(1) Fair value is categorized based on the years from March 31, 2007, until the contractual maturity of the derivative.

(2) Represents the notional weighted average rate for the fixed leg of the swaps.

(3) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to ten years.

(4) Primarily represents written options, including guarantees of stated final maturity of issued Structured Securities and written call options on PCs we issued.

Table 12 summarizes the change in derivative fair values.

Table 12 — Changes in Derivative Fair Values

	Three Months Ended	
	March 31,	
	2007	2006
(in millions)		
Beginning balance — Net asset (liability)	\$ 7,729	\$ 6,507
Net change in:		
Forward purchase and sale commitments	(18)	50
Credit derivatives	1	—
Other derivatives ⁽¹⁾		
Changes in fair value	(563)	1,123
Fair value of new contracts entered into during the period ⁽²⁾	73	290
Contracts realized or otherwise settled during the period	(1,293)	(1,388)
Ending balance — Net asset (liability)	<u>\$ 5,929</u>	<u>\$ 6,582</u>

(1) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, foreign-currency swaps and interest-rate caps.

(2) Consists primarily of cash premiums paid or received on options and the initial value of interest-rate swaps after we have exercised related swaptions.

Table 13 provides information on our outstanding written and purchased swaption and option premiums at March 31, 2007 and December 31, 2006 based on the original premium receipts or payments.

Table 13 — Outstanding Written and Purchased Swaption and Option Premiums

	<u>Original Premium Amount (Paid) Received</u>	<u>Original Weighted Average Life to Expiration</u> (dollars in millions)	<u>Remaining Weighted Average Life</u>
Purchased:			
At March 31, 2007	\$ (4,708)	7.6 years	6.1 years
At December 31, 2006	\$ (5,316)	7.5 years	6.1 years
Written: ⁽¹⁾			
At March 31, 2007	\$ 109	2.0 years	2.0 years
At December 31, 2006	\$ 21	0.2 years	0.1 years

(1) Excludes written options on guarantees of stated final maturity of Structured Securities.

Guarantee Asset

See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — *Gains (Losses) on Guarantee Asset*” for a description of the Guarantee asset. Table 14 summarizes the changes in the Guarantee asset balance.

Table 14 — Changes in Guarantee Asset

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
	(in millions)	
Beginning balance	\$6,070	\$5,083
Additions, net of repurchases	620	417
Return of investment on Guarantee asset	(312)	(244)
Changes in fair value of future cash flows	(98)	404
Gains (losses) on Guarantee asset	(410)	160
Ending balance	<u>\$6,280</u>	<u>\$5,660</u>

The primary drivers affecting our Guarantee asset balance are our credit guarantee business volumes and changes in mortgage interest rates. Additions, net of repurchases, increased primarily because of higher business volumes for the three months ended March 31, 2007. The average outstanding balance of PCs and Structured Securities increased 14 percent for the three months ended March 31, 2007 as compared with the three months ended March 31, 2006 and resulted in higher balances of related Guarantee assets. During the three months ended March 31, 2007, we recognized fair value losses on the Guarantee asset as a result of interest rate movements and widening spreads on excess servicing, interest-only securities. We recognized gains on the Guarantee asset for the three months ended March 31, 2006 due to increases in interest rates during the three months, which extend the life of the Guarantee asset.

Guarantee Obligation

See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — *Income on Guarantee Obligation*” for a description of the components of the Guarantee obligation. Table 15 summarizes the changes in the Guarantee obligation balance.

Table 15 — Changes in Guarantee Obligation

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Beginning balance	\$7,117	\$5,541
Transfer-out to the loan loss reserve ⁽¹⁾	(2)	(3)
Additions, net of repurchases:		
Fair value of performance and other related costs of newly-issued guarantees	649	277
Deferred guarantee income of newly-issued guarantees	208	284
Amortization income related to:		
Performance and other related costs	(140)	(133)
Deferred guarantee income	(72)	(62)
Income on Guarantee obligation	(212)	(195)
Ending balance	<u>\$7,760</u>	<u>\$5,904</u>
Components of the Guarantee obligation, at period end:		
Unamortized balance of performance and other related costs	\$5,376	\$3,885
Unamortized balance of deferred guarantee income	2,384	2,019
Ending balance	<u>\$7,760</u>	<u>\$5,904</u>

(1) Represents portions of the Guarantee obligation recognized through Guarantor Swap transactions or upon the sale of PCs and Structured Securities that correspond to incurred credit losses reclassified to Reserve for guarantee losses on Participation Certificates at initial recognition of a Guarantee obligation.

The Guarantee obligation increased during the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, due to increased credit guarantee business volume. Our performance costs are increasing primarily due to estimates of expected credit or default obligations on newly-issued guarantees; however, these are based on fair values at issuance that we believe imply higher future credit losses than we currently expect to ultimately incur. The Guarantee obligation includes \$1,459 million and \$1,260 million of unamortized upfront fees at March 31, 2007 and 2006, respectively. The components of the Guarantee obligation are amortized into income in relation to the decline in unpaid principal balance of the related mortgage loans.

Total Stockholders' Equity

Total stockholders' equity increased during the three months ended March 31, 2007, primarily as a result of a net decrease in unrealized losses on available-for-sale securities, which are a component of the AOCI balance, and a net increase in the balance of non-cumulative, perpetual preferred stock, partially offset by Net income (loss) and common and preferred stock dividends declared. During the three months ended March 31, 2007, we issued \$1.1 billion of non-cumulative, perpetual preferred stock, consisting of \$0.5 billion to complete the planned replacement of \$2.0 billion of common stock with an equal amount of preferred stock and \$0.6 billion to replace higher-cost preferred stock that we redeemed during the three months ended March 31, 2007.

The balance of AOCI at March 31, 2007 was a net loss of approximately \$6.5 billion, net of taxes, compared to a net loss of \$7.9 billion, net of taxes, at December 31, 2006. The reduction in the net loss in AOCI was primarily the result of a decrease in unrealized losses on available-for-sale securities as medium- and long-term rates declined since December 31, 2006 and the reclassification to earnings of deferred losses related to closed cash flow hedge relationships.

CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in accordance with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. These off-balance sheet items predominantly consist of: (a) the unrecognized Guarantee asset and Guarantee obligation associated with our PCs issued through our Guarantor Swap program prior to the implementation of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34," (b) certain commitments to purchase mortgage loans and (c) certain credit enhancements on manufactured housing asset-backed securities. The fair value balance sheets also include certain assets and liabilities that are not financial instruments (such as property and equipment and REO, which are included in Other assets) at their carrying value in accordance with GAAP. During the three months ended March 31, 2007 and for the full year 2006, our fair value results were affected by several improvements in our approach for estimating the fair value of certain financial instruments. See "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" as well as "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 14: FAIR VALUE DISCLOSURES" to our consolidated financial statements for more information on fair values.

We use a number of financial models in the preparation of our consolidated fair value balance sheets. See “MD&A — RISK MANAGEMENT — Operational Risks” and “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” of our 2006 Information Statement for discussion concerning the risks associated with these models.

Table 16 shows our summary consolidated fair value balance sheets.

Table 16 — Summary Consolidated Fair Value Balance Sheets⁽¹⁾

	March 31, 2007		December 31, 2006	
	Carrying Amount ⁽²⁾	Fair Value	Carrying Amount ⁽²⁾	Fair Value
	(in billions)			
Total assets	\$819.8	\$818.2	\$813.1	\$811.3
Total liabilities and minority interests	\$790.0	\$786.3	\$784.8	\$779.5
Net assets attributable to stockholders:				
Preferred stockholders	6.6	6.5	6.1	5.8
Common stockholders	23.2	25.4	22.2	26.0
Total net assets	29.8	31.9	28.3	31.8
Total liabilities and net assets	\$819.8	\$818.2	\$813.1	\$811.3

(1) The summary consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.

(2) Carrying amounts equal the amounts reported on our GAAP consolidated balance sheets.

Discussion of Fair Value Results

During the three months ended March 31, 2007, the fair value of net assets attributable to common stockholders, before capital transactions, decreased by \$0.3 billion, resulting in an annualized negative return on the average fair value of net assets attributable to common stockholders of approximately 4.4 percent, compared to a \$1.0 billion increase, or 14.8 percent annualized return, during the three months ended March 31, 2006. The fair value of net assets attributable to common stockholders at March 31, 2007 was \$25.4 billion, compared to \$26.0 billion at December 31, 2006. The payment of common dividends reduced total fair value by \$0.3 billion.

Estimated impact of changes in mortgage-to-debt OAS on fair value results

For the three months ended March 31, 2007 and 2006, we estimated that on a pre-tax basis the change in the fair value of net assets attributable to common stockholders, before capital transactions, included decreases of approximately \$0.3 billion and \$0.7 billion, respectively, due to a net widening of mortgage-to-debt OAS.

We believe disclosing the estimated impact of changes in mortgage-to-debt OAS on the fair value of net assets is helpful to understanding our current period fair value results in the context of our long-term fair value return expectation. Our long-term expectation is to generate returns, before capital transactions, over time on the average fair value of net assets attributable to common stockholders in the low- to mid-teens. However, period-to-period returns may fluctuate substantially due to market conditions. These market conditions include changes in interest rates and other market factors that affect certain components of our fair value changes, including those which we do not attempt to hedge or actively manage, specifically, the change in mortgage-to-debt OAS with respect to our Retained portfolio and the change in the fair value of the single-family guarantee portfolio.

Our estimate of the periodic increases or decreases in the fair value of net assets associated with fluctuations in OAS provides insight into a component of our fair value results that we do not believe will significantly affect the long-term fair value of the Retained portfolio. This belief is based on our expectation that differences between the prepayments forecasted by our models and the actual prepayments we will experience are not likely to be significant.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to make payments upon the maturity or repurchase of our debt securities, purchase mortgage loans, mortgage-related securities and other investments, make payments of principal and interest on our debt securities and on our guaranteed PCs and Structured Securities, make net payments on derivative instruments, fund our general operations and pay dividends on our preferred and common stock.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities we hold or mortgage loans we have securitized and sold;
- sales of securities we hold;

- borrowings against mortgage-related securities and other investment securities we hold;
- other cash flows from operating activities, including guarantee activities; and
- issuances of common and preferred stock.

Debt Securities

We fund our operating cash needs and finance our purchases of mortgage loans, mortgage-related securities and non-mortgage-related securities held in our Retained portfolio and cash and investments portfolio primarily through the issuance of short-term and long-term debt. Table 17 summarizes the par value of the debt securities we issued, based on settlement dates, during the three months ended March 31, 2007 and 2006. We seek to maintain a variety of consistent, active funding programs that promote high-quality coverage by market makers and reach a broad group of institutional and retail investors. By diversifying our investor base and the types of debt securities we offer, we believe we enhance our ability to maintain continuous access to the debt markets under a variety of market conditions.

Table 17 — Debt Security Issuances by Product, at Par Value⁽¹⁾

	Three Months Ended March 31,	
	2007	2006
(in millions)		
Short-term debt:		
Reference Bills [®] securities and discount notes	\$130,646	\$195,649
Medium-term Notes — Callable	1,900	1,100
Medium-term Notes — Non-callable	—	300
Total short-term debt issued	<u>132,546</u>	<u>197,049</u>
Long-term debt:		
Medium-term Notes — Callable	38,611	26,787
Medium-term Notes — Non-callable	14,264	9,740
U.S. dollar Reference Notes [®] securities — Non-callable	17,000	20,000
Total long-term debt issued	<u>69,875</u>	<u>56,527</u>
Total debt securities issued	<u>\$202,421</u>	<u>\$253,576</u>

(1) Excludes securities sold under agreements to repurchase and Federal funds purchased, swap collateral obligations, lines of credit and securities sold, but not yet purchased.

Subordinated Debt. During the three months ended March 31, 2007, we called \$1.2 billion of Freddie SUBS[®] securities. At March 31, 2007 and December 31, 2006, the balance of our subordinated debt outstanding was \$5.2 billion and \$6.4 billion, respectively. Our subordinated debt in the form of Freddie SUBS[®] securities is a component of our risk management and disclosure commitments with OFHEO (described in “RISK MANAGEMENT AND DISCLOSURE COMMITMENTS”).

Credit Ratings. Our ability to access the capital markets and other sources of funding, as well as our cost of funds, are highly dependent upon our credit ratings. Table 18 indicates our credit ratings at June 1, 2007.

Table 18 — Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	Standard & Poor's	Moody's	Fitch
Senior long-term debt ⁽¹⁾	AAA	Aaa	AAA
Short-term debt ⁽²⁾	A-1+	P-1	F-1+
Subordinated debt	AA-	Aa2	AA-
Preferred stock	AA-	Aa3	AA-

(1) Includes Medium-term Notes, U.S. dollar Reference Notes[®] securities and €Reference Notes[®] securities.

(2) Includes Reference Bills[®] securities and discount notes.

Equity Securities

See “Capital Resources — Core Capital” and “UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS” for information about issuances and repurchases of our equity securities.

Cash and Investments Portfolio

We maintain a cash and investments portfolio that is important to our financial management and our ability to provide liquidity and stability to the mortgage market. At March 31, 2007, the investments in this portfolio consisted of liquid non-mortgage-related securities, principally asset-backed securities and other marketable assets, that we could sell or finance to provide us with an additional source of liquidity to fund our business operations. We also use the portfolio to help manage recurring cash flows and meet our other cash management needs. In addition, we use the portfolio to hold capital on a temporary basis until we can deploy it into Retained portfolio investments or credit guarantee opportunities.

We may also sell or finance the securities in this portfolio to maintain capital reserves to meet mortgage-funding needs, provide diverse sources of liquidity or help manage the interest-rate risk inherent in mortgage-related assets.

Capital Resources

Capital Adequacy

We estimated at March 31, 2007 that we exceeded each of our regulatory capital requirements, including the 30 percent mandatory target capital surplus, based on our most recent submissions to OFHEO. See “NOTE 9: REGULATORY CAPITAL” to our consolidated financial statements for further information regarding our regulatory capital requirements and “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements in our 2006 Information Statement for further information regarding OFHEO’s capital monitoring framework.

Core Capital

During the three months ended March 31, 2007, we added approximately \$0.1 billion to Core capital primarily from a net increase in the balance of non-cumulative, perpetual preferred stock of \$0.5 billion as well as the cumulative effect of a change in accounting principle of \$0.2 billion partially offset by a net loss of \$0.2 billion and the payment of common and preferred stock dividends totaling \$0.4 billion. During the three months ended March 31, 2007, we issued \$1.1 billion of non-cumulative, perpetual preferred stock, consisting of \$0.5 billion to complete the planned replacement of \$2.0 billion of common stock with an equal amount of preferred stock and \$0.6 billion to replace higher-cost preferred stock that we redeemed during the three months ended March 31, 2007. In accordance with OFHEO’s capital monitoring framework, we obtained OFHEO’s approval for the preferred stock redemption. In addition, during the three months ended March 31, 2007, we received approval from OFHEO and our board of directors to repurchase up to an additional \$1.0 billion in common stock in conjunction with the issuance of up to \$1.0 billion in preferred stock. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Recently Adopted Accounting Standards — *Accounting for Uncertainty in Income Taxes*” to our consolidated financial statements for further information regarding the cumulative effect of a change in accounting principle.

RISK MANAGEMENT

We are exposed to risks that include operational risks, interest-rate and other market risks and credit risks, among others, including those described in the “RISK FACTORS” section of our 2006 Information Statement. We manage risk through a framework, approved by our board of directors, that recognizes primary risk ownership and management by our business areas. Within this framework, our executive management committees and divisions responsible for independent risk oversight, which include Enterprise Risk Oversight, Corporate Compliance and Internal Audit, monitor performance against our risk management strategies and established risk limits, identify and assess potential issues and provide oversight regarding changes in business processes and activities. Our board of directors and its committees also provide oversight of risk management. Together, these groups assess the adequacy and effectiveness of the risk management functions across the company.

Operational Risks

Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, failures of the technology used to support our business activities and other operational challenges resulting from failed or inadequate internal controls. We face a number of significant operational risks, including material weaknesses and other significant deficiencies in our internal control over financial reporting. These operational risks may expose us to financial loss, may delay or interfere with our ability to return to and sustain timely financial reporting or may result in other adverse consequences. Governance over the management of our operational risks takes place through the enterprise risk management framework described above. Business areas retain primary responsibility for identifying, assessing and reporting their operational risks.

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in our financial reports is accumulated and communicated to senior management as appropriate to allow timely decisions regarding required disclosure. We have not yet completed the evaluation and testing of our disclosure controls and procedures.

Internal Control Over Financial Reporting

As discussed in “MD&A — RISK MANAGEMENT — Operational Risks” of our 2006 Information Statement, we have material weaknesses and significant deficiencies in our internal control over financial reporting. Based on the existence of the material weaknesses, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was ineffective at December 31, 2006. Since that time, we have made a number of

material changes to our internal control over financial reporting as described below. We believe our efforts to date to remediate our material weaknesses and significant deficiencies have continued to strengthen our control environment since December 31, 2006. However, material weaknesses and significant deficiencies continue to pose significant risk to our financial reporting in 2007. The complexity associated with the interdependent nature of key elements of our remediation efforts may also continue to affect the timing and impact of such efforts. Additionally, the controls described below that we have put in place through our remediation efforts have not been subject to assessment by our external auditors in the course of their audit of our annual consolidated financial statements.

We performed extensive verification and validation procedures to provide reasonable assurance that our March 31, 2007 consolidated financial statements are prepared and are fairly stated in accordance with GAAP. We have developed and have begun assessing our processes against a set of standards over internal controls for matters such as general ledger reconciliations, financial analytics, models and end-user computing. We have also strengthened our monthly and quarterly analysis and review forums in which business area controllers, the Corporate Controller and the Chief Financial Officer review and consider analyses of periodic results, issues that arose in processing, status and impact of control deficiencies, simplifying assumptions and impacts of changes to our processes during the period in order to assess the reliability of the financial results. In view of these and other procedures we performed, we believe that the material weaknesses do not prevent us from preparing and fairly stating our March 31, 2007 consolidated financial statements in conformity with GAAP.

Overview of Progress Toward Remediation

Remediation of the material weaknesses and significant deficiencies in our financial reporting processes continues to be a top corporate priority in 2007. Our material weaknesses and planned remediation activities are described in our 2006 Information Statement. Beginning with this Information Statement Supplement, we are reporting progress towards remediation of material weaknesses and significant deficiencies in the following stages:

- In process — We are in the process of designing and implementing controls to correct identified internal control deficiencies and conducting ongoing evaluations to ensure all deficiencies have been identified.
- Remediation activities implemented — We designed and implemented the controls we believe necessary to remediate the identified internal control deficiencies.
- Remediated — After a sufficient period of operation of the controls implemented to remediate the control deficiencies, management has evaluated the controls and found them to be operating effectively.

At December 31, 2006, remediation activities were in process for all of our material weaknesses. Our progress toward remediation of the material weaknesses since the date of our 2006 Information Statement is summarized in the table below.

<u>Material Weaknesses</u>	<u>Remediation Progress as of June 14, 2007</u>
Integration between Operations and Finance	
Systems and processes related to our operational and financial accounting systems and to our financial close process are not adequately integrated. The components of this weakness are:	
• Data Hand-offs — Controls over data hand-offs between business units and from external providers need to be improved	In process
• Financial Close Process — The financial close process needs better coordination between business unit accounting teams and corporate accounting and reporting teams, and improved monitoring of the process	Remediation activities implemented ⁽¹⁾
• Complex Transactions Processing — Controls over the processing of complex structured securitization transactions need to be improved	In process
• Accounting Policy Linkage — Processing performed by financial applications needs to be evaluated for appropriate linkage to accounting policies	In process
Monitoring Controls within Financial Operations	
Monitoring controls and analytics within financial operations fail to detect errors and escalate issues to management prior to external disclosure of financial results.	In process
Information Technology General Controls — Access to Data and Security Administration	
Controls over monitoring of users with direct access to data, segregation of duties, and administration of user access to applications and data are not adequately designed and enforced.	In process
Information Technology General Controls — Change Management	
Policies and procedures for making program and data changes are inadequate and controls over system development testing, approval and quality assurance are not operating effectively.	In process
Management Self-Assessment	
Self-assessment processes do not enable management to timely identify, document and remediate control deficiencies within the financial reporting process.	In process
Adequacy of Staffing	
Vacancies in leadership and key staff positions increase operational risk in our financial reporting processes. Individual accountability for risk management is not embedded in our corporate culture.	Remediated ⁽¹⁾

(1) Represents a change in the stage of progress towards remediation since the date of our 2006 Information Statement.

Material weakness we have remediated

Adequacy of Staffing — We adequately filled our leadership and critical staff position vacancies, and made significant progress in resolving single-person critical dependencies. We also implemented an on-going process designed to identify and resolve critical vacancies in an expeditious manner through better coordination between our human resources professionals and our business units. In addition, we developed and have initiated a series of programs designed to enhance our management of human resources and to create and sustain a more effective culture of accountability. These programs include improvements to our performance management process, development of broad-based risk and control training programs and more effective work force planning. We are continuing to implement programs and processes related to assuring adequate staffing and risk management accountability as part of our ongoing focus on this area.

Progress toward remediation of other material weaknesses

The discussion below describes the actions that management has taken and is in the process of taking to remediate our remaining material weaknesses. Although we have made progress on remediation of these material weaknesses, additional work remains. As we continue our remediation activities, we may identify additional material weaknesses, significant deficiencies or other operational issues in our internal control over financial reporting or conclude that significant deficiencies we already identified should be regarded as material weaknesses, either individually or in the aggregate.

Integration between Operations and Finance — Our efforts to remediate the four components of this material weakness are described below:

- 1) Data Hand-offs — Policies and standards have been developed to define control objectives related to hand-offs of information between people, processes and systems. An extensive “end-to-end” process review is currently in progress to validate the controls over hand-offs that are in place and to identify potential design deficiencies in

our existing system of internal controls. As specific control deficiencies are identified, remediation plans are being designed and implemented.

- 2) **Financial Close Process** — Significant improvements have been made in the execution of, control over and timing of our monthly financial close process. These include substantive enhancements to the coordination of close process activities among our business unit accounting teams and corporate accounting and reporting teams as well as improvements in our monitoring controls. Year-end 2006 results were released ahead of our announced schedule and we anticipate continued incremental improvements to processes and systems.
- 3) **Complex Transactions Processing** — We have performed an in-depth review of our controls related to the processing and reporting of our more complex structured securitization transactions. For the specific deficiencies identified in this review, we designed and are implementing the controls we believe necessary for remediation. This includes enhancements to both the design and efficiency of the controls over these transactions.
- 4) **Accounting Policy Linkage** — We reviewed and ranked the relative risk of our financial applications for their impact on the application of accounting policy. All high-risk systems are currently being evaluated in the end-to-end process review to determine whether accounting policies are appropriately applied through the processing of those applications.

Monitoring Controls within Financial Operations — We are developing and implementing monitoring controls and standards to support the accounting processes at both the business unit and corporate levels, including a more structured, in-depth analytics process. These monitoring controls, combined with a newly implemented governance structure, are designed to provide for detection, escalation and remediation of accounting and reporting issues prior to external disclosure of financial results.

Information Technology General Controls — Access to Data and Security Administration — We have substantially completed the assessment of our information technology general controls over security administration utilizing the Information Technology Governance Institute's Control Objectives for Information Technology framework. We identified relevant control deficiencies and are implementing controls designed to ensure that data is secure and available only to authorized and appropriate users. Additionally, we developed, and are in the process of implementing, new automated tools designed to monitor user access and detect non-compliance with segregation of duties requirements.

Information Technology General Controls — Change Management — We developed a new change management process and have begun to implement a new and simplified systems development life cycle process based on a methodology acquired from a third party. We now require adherence to these processes for new computer application development projects and significant changes to business processes. We have also developed criteria and plans for transitioning existing application development projects to the new methodology. Additional remediation efforts will focus on ensuring that all changes introduced into a production environment are appropriately documented, approved and tested.

Management Self-Assessment — We designed a process for self-assessment that will provide management with a more timely and effective tool to identify, document and remediate control deficiencies within the financial reporting process. We are currently conducting a pilot of the process within a portion of our business to validate the process and procedures for risk assessment, control effectiveness assessment, issue identification and remediation, and management attestation and reporting on internal control. We anticipate deploying the self-assessment process to each business area as the corresponding components of the end-to-end process review are completed.

Progress toward remediation of significant deficiencies

As discussed in “MD&A — RISK MANAGEMENT — Operational Risks” of our 2006 Information Statement, we previously remediated significant deficiencies related to our risk governance framework, security impairments accounting process, and our amortization of deferred premiums, discounts and fees for assets held in our Retained portfolio. At December 31, 2006, remediation activities were in process for all of our significant deficiencies. Our progress toward

remediation of the significant deficiencies since the date of our 2006 Information Statement is summarized in the table below.

<u>Significant Deficiencies</u>	<u>Remediation Progress as of June 14, 2007</u>
<p>Guarantee Asset/Guarantee Obligation Governance Our process for valuation of and accounting for guarantee assets and guarantee obligations is complex, manually intensive and dependent on end-user computing solutions, resulting in an unacceptable likelihood of risk of significant error.</p>	In process
<p>End-User Computing Controls Our financial reporting processes rely on end-user computing solutions that are not subject to adequate controls over their development, nor are they currently subject to adequate change control procedures.</p>	In process
<p>New Products Governance Our policies and procedures for the introduction of new products are insufficient and related governance processes do not adequately ensure adherence to policies and procedures.</p>	Remediated ⁽¹⁾
<p>Tax Basis Balance Sheet We do not maintain a tax basis balance sheet to support deferred tax accounting under GAAP, which could result in balance sheet misclassifications and potential income statement adjustments.</p>	In process
<p>Controls over Data Quality Controls over the quality of data used in our financial reporting process are not effective.</p>	In process
<p>Simplifying Assumptions Our financial reporting process is over-reliant on simplifying assumptions, or manual work around solutions, in the application of our accounting policies. In addition, we do not adequately monitor the potential impact of these simplifying assumptions on the financial statements.</p>	In process
<p>Oversight of Models and Applications Our model governance and monitoring procedures do not effectively ensure that changes to and our use of models in our financial reporting process are appropriate.</p>	In process

(1) Represents a change in the stage of progress towards remediation since the date of our 2006 Information Statement.

New Products Governance — In completing the remediation of this significant deficiency, we redesigned the processes and controls over the introduction of new products, including improving our overall procedures, implementing enhanced governance and oversight, providing training to personnel involved in developing and implementing new products and deploying post-implementation monitoring.

Interest-Rate Risk and Other Market Risks

Our interest-rate risk management objective is to serve our housing mission by protecting stockholder value in all interest-rate environments. We believe a disciplined approach to interest-rate risk management is essential to maintaining a strong and durable capital base and uninterrupted access to debt and equity capital markets. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” in our 2006 Information Statement for more information.

PMVS and Duration Gap. Our primary interest-rate risk measures are PMVS and duration gap. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to parallel moves in interest rates (PMVS-L) and the other to nonparallel movements (PMVS-Yield Curve, or PMVS-YC).

PMVS Results. Table 19 provides estimated PMVS-L and PMVS-YC results. Table 19 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. Because we do not hedge all prepayment risk, the duration of our mortgage assets changes more rapidly as changes in interest rates increase. Accordingly, as shown in Table 19, the PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher than the PMVS-L results based on a 50 basis point shift in the LIBOR curve.

Table 19 — Portfolio Market Value Sensitivity Assuming Shifts of the LIBOR Yield Curve

	<u>Portfolio Market Value Sensitivity</u>			<u>Potential Pre-Tax Loss in Portfolio Market Value (in millions)</u>		
	<u>PMVS-YC</u>	<u>PMVS-L</u>		<u>PMVS-L</u>		
	<u>25 bps</u>	<u>50 bps</u>	<u>100 bps</u>	<u>25 bps</u>	<u>50 bps</u>	<u>100 bps</u>
At:						
March 31, 2007	—%	1%	4%	\$30	\$241	\$893
December 31, 2006	—%	1%	2%	\$27	\$146	\$560

Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. By keeping PMVS-L and PMVS-YC low, we have been able to reduce the exposure of the fair value of our stockholders’ equity to adverse changes in interest rates.

Table 20 shows that the low PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure.

Table 20 — Derivative Impact on Portfolio Market Value Sensitivity

	<u>Before Derivatives</u>	<u>After Derivatives</u>	<u>Effect of Derivatives</u>
<u>At March 31, 2007</u>			
PMVS-L (50 bps)	2%	1%	(1)%
<u>At December 31, 2006</u>			
PMVS-L (50 bps)	2%	1%	(1)%

Duration Gap Results. Our estimated average duration gap for the months of March 2007 and December 2006 was zero months.

Use of Derivatives and Interest-Rate Risk Management

Types of Derivatives. The derivatives we use to hedge interest-rate and foreign-currency risk are common in the financial markets. We principally use the following types of derivatives:

- LIBOR- and Euribor-based interest-rate swaps;
- LIBOR- and Treasury-based exchange-traded futures;
- LIBOR- and Treasury-based purchased options (including purchased swaptions); and
- Foreign-currency swaps.

In addition to swaps, futures and options, our derivative positions include the following:

Written Options and Swaptions. Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and swaptions to manage convexity risk over a wide range of interest rates. We may, from time to time, write other derivative contracts such as caps, floors and interest rate futures.

Forward Purchase and Sale Commitments. We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.”

Swap Guarantee Derivatives. We guarantee the payment of principal and interest on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds, (b) tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties and (c) Freddie Mac pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor’s or the borrower’s performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk. Guarantees of these interest-rate swaps entered into after June 30, 2003 are treated as derivatives and are reported as swap guarantee derivatives.

Credit Derivatives. We have entered into credit derivatives during the three months ended March 31, 2007, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the specified mortgage loans. See “MD&A — RISK MANAGEMENT — Credit Risks — *Mortgage Credit Risk — Other Credit Risk Management Activities*” in our 2006 Information Statement for more information.

Derivative Counterparty Credit Risk

Table 21 summarizes our exposure to counterparty credit risk in our derivatives.

Table 21 — Derivative Counterparty Credit Exposure

March 31, 2007						
Rating ⁽¹⁾	Number of Counterparties ⁽²⁾	Notional Amount	Total Exposure at Fair Value ⁽³⁾	Exposure, Net of Collateral ⁽⁴⁾	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
(dollars in millions)						
AAA	2	\$ 1,112	\$ 112	\$112	4.3	Mutually agreed upon
AA+	2	79,509	386	17	4.6	\$10 million or less
AA	10	317,837	2,139	120	5.1	\$10 million or less
AA-	9	211,335	4,618	34	5.1	\$1 million or less
A+	4	150,010	966	46	6.1	\$1 million or less
A	1	210	3	1	4.8	\$1 million or less
Subtotal ⁽⁵⁾	28	760,013	8,224	330	5.2	
Other derivatives ⁽⁶⁾		135,289	—	—		
Forward purchase and sale commitments		10,322	10	10		
Swap guarantee derivatives		984	—	—		
Total derivatives		<u>\$906,608</u>	<u>\$8,234</u>	<u>\$340</u>		

(1) We use the lower of Standard & Poor's, or S&P, and Moody's ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.

(2) Based on legal entities. Affiliated legal entities are reported separately.

(3) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as Derivative assets, at fair value) including the related accrued interest receivable/payable (net) (recorded in Accounts and other receivables, net or Accrued interest payable).

(4) Total Exposure at Fair Value less collateral held as determined at the counterparty level.

(5) Consists of over-the-counter derivative agreements for interest-rate swaps, option-based derivatives (excluding written options), certain credit derivatives, foreign-currency swaps and purchased interest-rate caps. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.

(6) Consists primarily of exchange-traded contracts, written options and certain credit derivatives.

Credit Risks

Our credit guarantee portfolio is subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or security we own or guarantee. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations. Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and the general economic environment. To manage our mortgage credit risk, we focus on three key areas: underwriting requirements and quality control standards; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements.

The composition of our mortgage portfolio, as defined in "Table 23 — Product Distribution", at March 31, 2007 remained consistent with that at December 31, 2006, and our approach to management of credit risk allowed us to maintain a portfolio with strong credit characteristics. To support our mission, we announced on April 18, 2007 that we will purchase up to \$20 billion in fixed-rate and hybrid ARM products that will provide lenders with more choices to offer subprime borrowers. The products are intended to be consumer-friendly mortgages for borrowers and will limit payment shock by offering reduced adjustable-rate margins, longer fixed-rate terms and longer reset periods.

Our charter requires that single-family mortgages with LTV ratios above 80 percent at the time of purchase be covered by one or more of the following: (a) mortgage insurance for mortgage amounts above the 80 percent threshold; (b) a seller's agreement to repurchase or replace any mortgage in default; or (c) retention by the seller of at least a 10 percent participation interest in the mortgages. In addition, we employ other types of credit enhancements, including pool insurance, indemnification agreements, collateral pledged by lenders and subordinated security structures. We also occasionally use credit enhancements to mitigate risk on multifamily mortgages.

Table 22 provides characteristics of our single-family Total mortgage portfolio and loans purchased during the three months ended March 31, 2007 and 2006.

Table 22 — Characteristics of Single-Family Total Mortgage Portfolio⁽¹⁾

	Purchases During the Three Months Ended March 31,		Ending Balance	
	2007	2006	March 31, 2007	December 31, 2006
Original LTV Ratio Range⁽²⁾				
Less than 60%	19%	19%	24%	24%
Above 60% to 70%	15	16	16	16
Above 70% to 80%	54	53	47	46
Above 80% to 90%	6	7	7	7
Above 90% to 100%	6	5	6	7
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average original LTV ratio	72%	72%	71%	70%
Estimated Current LTV Ratio Range⁽³⁾				
Less than 60%			51%	53%
Above 60% to 70%			18	18
Above 70% to 80%			22	20
Above 80% to 90%			7	7
Above 90%			2	2
Total			<u>100%</u>	<u>100%</u>
Weighted average estimated current LTV ratio			58%	57%
Credit Score⁽⁴⁾				
740 and above	42%	41%	45%	45%
700 to 739	23	24	23	23
660 to 699	19	20	18	18
620 to 659	10	11	9	9
Less than 620	5	4	4	4
Not Available	1	—	1	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average credit score	719	719	724	725
Loan Purpose				
Purchase	44%	48%	33%	37%
Cash-out refinance	36	36	38	29
Other refinance	20	16	29	34
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Property Type				
1 unit	97%	97%	97%	97%
2-4 units	3	3	3	3
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Occupancy Type				
Primary residence	89%	89%	92%	92%
Second/vacation home	6	6	5	5
Investment	5	5	3	3
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

- (1) Purchases and ending balances are based on the unpaid principal balance of the single-family mortgage portfolio (excluding certain Structured Transactions). Purchases included in the data totaled \$112 billion and \$93 billion during the three months ended March 31, 2007 and 2006, respectively. Ending balances included in the data totaled \$1,540 billion and \$1,482 billion at March 31, 2007 and December 31, 2006, respectively.
- (2) Our charter requires that mortgage loans purchased with LTV ratios above 80 percent be covered by mortgage insurance or other credit enhancements.
- (3) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV excludes Structured Transactions and option ARMs. Estimated current LTV ratio ranges are not applicable to purchases made during the period. In our efforts to improve our systems supporting financial reporting, we began using a new model for estimating current LTV ratios during the three months ended March 31, 2007. Prior period estimated current LTV ratios have been revised to conform to the current period presentation.
- (4) Credit score data is as of mortgage loan origination for all loans within mortgage pools underlying our issued PCs and Structured Securities as well as mortgage loans held in our Retained portfolio and is based on the rating system scale developed by Fair, Isaac and Co., Inc., or FICO® scores.

To improve our ability to fulfill our mission, we have increased our participation in nontraditional mortgage products. To that end, we periodically issue Structured Securities backed by mortgage loans or mortgage-related securities using collateral pools transferred to trusts that were specifically created for the purpose of issuing the securities. These trusts issue various senior interests, subordinated interests or both. We purchase interests, including senior interests, of the trusts and simultaneously issue and guarantee Structured Securities backed by these interests. We refer to these Structured Securities as Structured Transactions. Although Structured Transactions generally have underlying mortgage loans with higher risk characteristics, they may afford us credit protection from losses due to the structure employed and other credit enhancement features.

Table 23 summarizes the product distribution of our mortgage portfolio.

Table 23 — Product Distribution⁽¹⁾

	March 31, 2007	December 31, 2006
	(dollars in millions)	
<i>Single-family:</i>		
30-year amortizing fixed-rate ⁽²⁾	63%	63%
15-year amortizing fixed-rate	18	19
Adjustable-rate mortgages, or ARMs	6	7
Option ARMs	1	1
Interest-only	6	5
Balloon/Resets	1	1
Other	1	1
<i>Total single-family</i>	<u>96%</u>	<u>97%</u>
<i>Multifamily:</i>		
Conventional ⁽³⁾	4%	3%
<i>Total multifamily</i>	<u>4%</u>	<u>3%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>
Amounts related to:		
Guaranteed PCs and Structured Securities:		
Single-family	\$1,504,822	\$1,442,306
Multifamily	7,825	8,415
Structured Transactions	23,878	26,302
Mortgage loans in the Retained portfolio:		
Single-family	20,495	20,640
Multifamily	46,641	45,207
Total	<u><u>\$1,603,661</u></u>	<u><u>\$1,542,870</u></u>

(1) Based on unpaid principal balances. Excludes non-Freddie Mac mortgage related securities held in our Retained portfolio other than those that underlie Freddie Mac Structured Securities.

(2) Includes 40-year and 20-year fixed-rate mortgages.

(3) Includes Structured Transactions backed by multifamily collateral.

Credit Performance

Delinquencies

We report single-family delinquency rate information based on the number of loans that are 90 days or more past due. For multifamily loans, we report the delinquency when payment is 60 days or more past due. See “NOTE 5: LOAN LOSS RESERVES — Table 5.4 — Delinquency Performance” to our consolidated financial statements for the delinquency performance of our single-family and multifamily mortgage portfolios. Table 24 presents our single-family delinquency rates, by region.

Table 24 — Single-Family — Delinquency Rates — By Region⁽¹⁾

	March 31, 2007		December 31, 2006	
	Percent of Unpaid Principal Balance	Delinquency Rate	Percent of Unpaid Principal Balance	Delinquency Rate
Northeast ⁽²⁾	24%	0.24%	24%	0.24%
Southeast ⁽²⁾	18	0.29	18	0.30
North Central ⁽²⁾	21	0.31	21	0.32
Southwest ⁽²⁾	13	0.25	13	0.26
West ⁽²⁾	24	0.14	24	0.12
Total non-credit-enhanced — all regions ⁽³⁾		0.25		0.25
Total credit-enhanced — all regions ⁽³⁾		1.69		1.86
Total credit-enhanced and non-credit-enhanced — all regions ⁽³⁾	<u>100%</u>	0.50%	<u>100%</u>	0.53%

(1) Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(2) Percentages are based on mortgage loans in the Retained portfolio and Total Guaranteed PCs and Structured Securities Issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions.

(3) Percentages are based on mortgage loans in the Retained portfolio and Total Guaranteed PCs and Structured Securities Issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates.

In the last half of 2006 and continuing for the three months ended March 31, 2007, there has been a decline in the rate of home price appreciation and some regions have seen slight overall declines in home prices. In some geographical areas, particularly the North Central region, this decline has been combined with increased rates of unemployment and weakness in other economic factors that has resulted in increases in the rate of transition of delinquent mortgages into foreclosure status. The delinquency rates on our Total mortgage portfolio at March 31, 2007 have remained low due to the

strong housing and employment markets in the U.S. that have existed over the last several years. Minor improvement in delinquency rates occurred in all product types during the three months ended March 31, 2007, except for interest-only mortgages. Delinquency rates for interest-only products, which represented approximately 6 percent of our credit guarantee portfolio, increased to 55 basis points at March 31, 2007 as compared with 44 basis points at December 31, 2006.

Table 25 presents activity related to loans purchased under financial guarantees for the three months ended March 31, 2007.

Table 25 — Changes in Loans Purchased Under Financial Guarantees

	For the Three Months Ended March 31, 2007				Impact on Pre-Tax Income (Loss)
	Contractual Loan Balance	Purchase Discount	Loan Loss Reserves (in millions)	Net Investment	
Beginning balance, December 31, 2006	\$3,042	\$201	\$—	\$2,841	\$ —
Purchases of loans	1,852	239	—	1,613	(170)
Provision for credit losses	—	—	6	(6)	(6)
Principal repayments	(304)	(22)	—	(282)	22
Troubled debt restructurings ⁽¹⁾	(146)	(12)	—	(134)	—
Foreclosures, transferred to REO	(407)	(26)	—	(381)	14
Ending balance, March 31, 2007 ⁽²⁾	<u>\$4,037</u>	<u>\$380</u>	<u>\$ 6</u>	<u>\$3,651</u>	<u>\$(140)</u>

(1) Consists of loans that have transitioned into troubled debt restructurings during the three months ended March 31, 2007.

(2) Includes \$1,057 million and \$972 million of contractual balance and net investment in loans, respectively, that have subsequently returned to current status under the original loan terms at March 31, 2007.

We have the right to purchase mortgages that back our PCs and Structured Securities from the loan pools when they have been past due for 120 days and in certain circumstances sooner, if there have been early indicators of credit deterioration such as extraordinary personal or financial hardship events of the borrower. This right to repurchase collateral is known as our repurchase option. We record loans that we repurchase out of PCs and Structured Securities in connection with our repurchase option at fair value. Our acquisition basis for mortgage loans purchased under financial guarantees is the par value adjusted for loss reserves, the net guarantee asset and guarantee obligation or the PC residual value previously recorded on our consolidated balance sheets. The excess of the loan's acquisition basis over its fair value is recorded as a charge to Losses on loans purchased on our consolidated statements of income and the loan's fair value becomes our net investment in the acquired loan.

As indicated in Table 25, at December 31, 2006, there was a \$201 million purchase discount representing the difference between contractual loan balances and the prevailing market values for those non-performing loans that we purchased from PC and mortgage loan pools in fulfillment of our guarantees. The unpaid principal balance of non-performing loans that have been purchased under our financial guarantees and that have not been modified under troubled debt restructurings has increased approximately 33 percent during the three months ended March 31, 2007. During the three months ended March 31, 2007, we purchased \$1,852 million in contractual balances of these loans with a fair value of \$1,613 million. The \$239 million of purchase discount for these loans reflects (a) \$69 million that was previously recorded on our consolidated balance sheets either as loan loss reserves, net Guarantee obligation, or PC residual if the related PC was held in our Retained portfolio, and (b) \$170 million of Losses on loans purchased as shown on our consolidated statements of income. The ending unpaid principal balances of these non-performing loans consist of approximately 34,000 and 27,000 mortgage loans at March 31, 2007 and December 31, 2006, respectively.

The recapture of losses previously recognized on purchased loans may occur when a borrower repays or refinances the loan or also may occur with the disposition of the REO obtained as a result of foreclosure. During the three months ended March 31, 2007, \$407 million, or approximately 8 percent of these loans proceeded to foreclosure and \$450 million, or approximately 9 percent were either repaid or were modified under a troubled debt restructuring. Of the \$48 million in purchase discount associated with foreclosures and borrower repayments or refinancing of these loans, we recognized a total of \$36 million in Other income during the three months ended March 31, 2007, which represents partial recapture of previously recognized Losses on loans purchased under financial guarantees. Additionally, at March 31, 2007 a total of \$1,057 million, or approximately 26 percent, returned to current status under the original loan terms.

We expect that we will continue to incur losses on the purchase of non-performing loans during 2007. However, the volume and severity of these losses is dependent on many factors including house price appreciation and the changes in the market environment for non-performing assets. In the current market, we believe there is a disparity between fair values of these loans and the actual amounts we ultimately expect to recover. During the year ended December 31, 2006, we recaptured greater than 25 percent of the purchase discount recorded on those loans acquired during the year. Based on the reperformance rate experienced on our purchased loans as well as our access to credit enhancement remedies that

are not considered in the market determination of the loan's fair value, we expect our recoveries to exceed the recorded net investment in these purchased loans, in aggregate.

Credit Loss Performance. Some of the loans that are delinquent or in foreclosure result in credit losses. Table 26 provides detail on our credit loss performance associated with mortgage loans in our Retained portfolio, including those purchased out of PCs and Structured Securities.

Table 26 — Credit Loss Performance

	Three Months Ended March 31,	
	2007	2006
(dollars in millions)		
REO		
REO balances:		
Single-family	\$ 871	\$ 636
Multifamily	7	18
Total	<u>\$ 878</u>	<u>\$ 654</u>
REO activity ⁽¹⁾ (number of properties):		
Beginning property inventory, at January 1	8,785	8,070
Properties acquired	4,638	4,051
Properties disposed	<u>(3,773)</u>	<u>(3,858)</u>
Ending property inventory, at March 31	<u>9,650</u>	<u>8,263</u>
Average holding period ⁽²⁾ (in days)	170	189
REO operations expense:		
Single-family	\$ (14)	\$ (12)
Multifamily	—	—
Total	<u>\$ (14)</u>	<u>\$ (12)</u>
CHARGE-OFFS		
Single-family:		
Charge-offs, gross ⁽³⁾ (including \$82 million and \$72 million relating to loan loss reserve, respectively)	\$ (93)	\$ (72)
Recoveries	49	42
Single-family, net	<u>(44)</u>	<u>(30)</u>
Multifamily:		
Charge-offs, gross	—	—
Recoveries	—	—
Multifamily, net	—	—
Total charge-offs, net	<u>\$ (44)</u>	<u>\$ (30)</u>
CREDIT LOSSES⁽⁴⁾		
Single-family	\$ (58)	\$ (42)
Multifamily	—	—
Total	<u>\$ (58)</u>	<u>\$ (42)</u>
In basis points ⁽⁵⁾ (annualized):		
Single-family	1.5	1.2
Multifamily	—	—
Total	<u>1.5</u>	<u>1.2</u>

(1) Includes single-family and multifamily REO properties.

(2) Represents weighted average holding period for single-family and multifamily based on number of REO properties.

(3) Charge-offs represent the amount of the unpaid principal balance of a loan that has been discharged in order to remove the loan from our Retained portfolio at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of income through the Provision for credit loss or Losses on loans purchased. The amount of charge-offs for credit loss performance is generally derived as the contractual balance of a loan at the date it is discharged less the estimated value in final disposition.

(4) Equal to REO operations expense plus charge-offs, net.

(5) Calculated as Credit losses divided by the average Total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our credit loss performance is an indicator of the effectiveness of both risk management and loss mitigation strategies. However, it is a historical metric that measures losses at the conclusion of a delinquent loan resolution process, which may take years from the point of initial delinquency. The credit performance in the table above does not reflect income or losses recorded in the current period related to unrealized credit losses.

Non-performing Assets

We have classified single-family loans in our Guaranteed PCs and Structured Securities portfolio that are past due for 90 days or more or whose contractual terms have been modified due to the financial difficulties of the borrower as non-performing assets, regardless of whether the mortgage is included in our Retained portfolio or the mortgage is collateral for our outstanding Guaranteed PCs and Structured Securities. Similarly, multifamily loans that are 60 days or more past due or where collectibility of principal and interest is not reasonably assured based on an individual loan level assessment are deemed non-performing assets. Table 27 provides detail of non-performing assets within our Guaranteed

PCs and Structured Securities portfolio. See “Table 30 — Guaranteed PCs and Structured Securities” for further information regarding product types within this portfolio.

Table 27 — Non-Performing Assets⁽¹⁾

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	(dollars in millions)	
Troubled debt restructuring:		
Reperforming or less than 90 days delinquent ⁽²⁾	\$2,748	\$2,633
Serious delinquencies ⁽³⁾	456	470
Total troubled debt restructuring	<u>3,204</u>	<u>3,103</u>
Other serious delinquencies: ⁽⁴⁾		
Retained and repurchased mortgage loans ⁽⁵⁾	3,320	2,982
Loans underlying outstanding PCs and Structured Securities, excluding Structured Transactions ⁽⁶⁾	1,602	1,721
Loans underlying outstanding Structured Transactions ⁽⁷⁾	967	997
Total other serious delinquencies	<u>5,889</u>	<u>5,700</u>
Subtotal	9,093	8,803
REO, net	878	743
Total non-performing assets	<u>\$9,971</u>	<u>\$9,546</u>
Total non-performing assets as a percentage of Guaranteed PCs and Structured Securities	0.65%	0.65%

(1) Based on unpaid principal balances.

(2) Includes previously delinquent loans whose terms have been modified.

(3) Includes single-family loans that have undergone troubled debt restructurings and are 90 days or more delinquent.

(4) Includes single-family loans 90 days or more delinquent and not in troubled debt restructurings. For multifamily loans, the population includes all loans 60 days or more delinquent but less than 90 days delinquent. Also included are multifamily loans greater than 90 days past due but where principal and interest are being paid to us under the terms of a credit enhancement agreement.

(5) Includes those loans purchased from the mortgage pools underlying PCs, Structured Securities or long-term standby agreements due to borrower delinquency as well as those mortgage loans that were purchased into our Retained portfolio that have become seriously delinquent.

(6) Includes mortgages greater than 90 days, but generally less than 120 days, delinquent. Once a loan is delinquent for 120 days, it is generally repurchased out of the security and becomes part of our Retained portfolio.

(7) Consists of mortgages 90 days or more delinquent that underlie the non-agency securities that back our Structured Transactions.

The amount of non-performing assets increased 4 percent during the three months ended March 31, 2007, to \$9,971 million, due to increases in average loan size as compared to 2006 as well as higher volume associated with portfolio growth. In addition, the delinquency transition rate, which is the percentage of delinquent loans that proceed to foreclosure or are modified as a troubled debt restructuring, has increased. As a result, the balance of our REO, net, increased 18 percent during the three months ended March 31, 2007. An observed increase in delinquency transition rate is more pronounced in mortgage loans originated in recent years, particularly mortgages originated during 2006. Until the rate of nationwide housing appreciation returns to historical levels or regional economies improve, we believe we will continue to experience higher delinquency transition rates and an increase in non-performing assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, income and expenses. Certain of our accounting policies, as well as estimates we make, are critical to the presentation of our financial condition and results of operations. They often require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. Actual results could differ from our estimates and different judgments and assumptions related to these policies and estimates could have a material impact on the consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) valuation of financial instruments; (b) issuances and transfers of PCs and Structured Securities; (c) derivative instruments and hedging activities; (d) credit losses; (e) amortization of cost basis adjustments using the effective interest method; and (f) impairment recognition on investments in securities. For additional information about our critical accounting policies and estimates and other significant accounting policies, including recently issued accounting pronouncements, see “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES” and “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” to our consolidated financial statements in our 2006 Information Statement.

OUR PORTFOLIOS

Table 28 — Freddie Mac’s Total Mortgage Portfolio Based on Unpaid Principal Balances⁽¹⁾

	March 31, 2007		December 31, 2006	
	Amount	% of Total Mortgage Portfolio <small>(dollars in millions)</small>	Amount	% of Total Mortgage Portfolio
Outstanding Guaranteed PCs and Structured Securities ⁽²⁾	\$1,177,678	62%	\$1,122,761	61%
Retained portfolio:				
PCs and Structured Securities	358,847	19	354,262	19
Non-Freddie Mac mortgage-related securities:				
Agency mortgage-related securities	44,647	2	45,385	3
Non-agency mortgage-related securities	243,824	13	238,465	13
Total non-Freddie Mac mortgage-related securities	288,471	15	283,850	16
Mortgage loans	67,136	4	65,847	4
Total Retained portfolio ⁽³⁾	714,454	38	703,959	39
Total mortgage portfolio	<u>\$1,892,132</u>	<u>100%</u>	<u>\$1,826,720</u>	<u>100%</u>

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Represents Guaranteed PCs and Structured Securities held by third parties.

(3) The Retained portfolio presented in this table differs from the Retained portfolio presented in our consolidated balance sheets because the amounts presented in our consolidated balance sheets include valuation adjustments and deferred balances. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 10 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio” for a reconciliation of the Retained portfolio amounts shown in this table to the amounts shown under such caption in accordance with GAAP on our consolidated balance sheets.

Due to the variety of new mortgage products available in the marketplace over the last two years and the tightening of credit standards by certain mortgage originators and investors, there has been a continued increase in competition for mortgage assets. During the three months ended March 31, 2007 and 2006, we grew our portfolio of Guaranteed PCs and Structured Securities outstanding at an annualized rate of 20 percent and 17 percent, respectively. Although the demand by borrowers for nontraditional mortgages, such as interest-only and option ARMs, remained strong, we did not purchase any option ARM products during the three months ended March 31, 2007, in contrast to \$4.9 billion of option ARM purchases during the three months ended March 31, 2006. Our purchases of interest-only mortgage loans during the three months ended March 31, 2007 and 2006, were 25 percent and 14 percent, respectively, of our total purchase volume; however, we continue to be prudent and have imposed limits on new products due to our limited historical experience with their performance.

Table 29 summarizes purchases into our Total mortgage portfolio.

Table 29 — Total Mortgage Portfolio Activity Detail⁽¹⁾

	Three Months Ended March 31,			
	2007		2006	
	Amounts	% of Purchase Amounts	Amounts	% of Purchase Amounts
	(dollars in millions)			
New business purchases				
Single-family mortgage purchases				
Conventional:				
Amortizing fixed-rate ⁽²⁾	\$ 80,499	68%	\$ 68,959	71%
ARMs/Variable-rate ⁽³⁾	4,461	4	5,781	6
Interest-only ⁽⁴⁾	29,139	25	13,556	14
Balloon/Resets ⁽⁵⁾	16	<1	184	<1
FHA/VA ⁽⁶⁾	126	<1	—	—
Rural Housing Service and other federally guaranteed loans	36	<1	28	<1
Total single-family	114,277	97	88,508	91
Multifamily:				
Conventional	3,139	3	3,508	4
Total multifamily	3,139	3	3,508	4
Total mortgage purchases	117,416	100	92,016	95
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:				
Ginnie Mae Certificates	7	<1	18	<1
Structured Transactions ⁽⁷⁾	—	—	4,921	5
Total non-Freddie Mac mortgage-related securities purchased for Structured Securities	7	<1	4,939	5
Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured Securities	\$117,423	100%	\$ 96,955	100%
Non-Freddie Mac mortgage-related securities purchased into the Retained portfolio:				
Agency securities:				
Single-family:				
Fixed-rate	\$ 321		\$ 1,959	
Variable-rate	991		1,066	
Total Agency	1,312		3,025	
Non-agency securities:				
Mortgage-related securities, other				
Single-family:				
Fixed-rate	—		—	
Variable-rate	21,300		27,342	
Total mortgage-related securities, other	21,300		27,342	
CMBS:				
Fixed-rate	178		1,982	
Variable-rate	6,005		2,095	
Total CMBS	6,183		4,077	
Mortgage revenue bonds:				
Single-family:				
Fixed-rate	245		455	
Variable-rate	—		—	
Multifamily:				
Fixed-rate	—		20	
Variable-rate	—		—	
Total mortgage revenue bonds	245		475	
Total non-agency mortgage-related securities	27,728		31,894	
Total non-Freddie Mac mortgage-related securities purchased into the Retained portfolio	29,040		34,919	
Total new business purchases	\$146,463		\$131,874	
Mortgage purchases with credit enhancements		14%		17%
Mortgage liquidations ⁽⁸⁾	\$ 81,061		\$ 77,015	
Mortgage liquidations rate ⁽⁸⁾		18%		18%
Freddie Mac securities repurchased into the Retained portfolio:				
Single-family:				
Fixed-rate	\$ 16,544		\$ 17,717	
Variable-rate	10,531		9,510	
Total Freddie Mac securities repurchased into the Retained portfolio	\$ 27,075		\$ 27,227	

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Includes 40-year, 30-year, 20-year and 15-year fixed-rate mortgages.

(3) Includes ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods.

(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments.

(5) Mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest rate.

(6) Excludes FHA/VA loans that back Structured Transactions.

(7) Includes \$4,921 million of option ARMs purchased for Structured Transactions during the three months ended March 31, 2006.

(8) Based on total mortgage portfolio.

Table 30 presents ending balance and issuance detail of our credit guarantee business activity.

Table 30 — Guaranteed PCs and Structured Securities⁽¹⁾

	March 31, 2007		December 31, 2006	
	Total Issued PCs and Structured Securities	Outstanding PCs and Structured Securities ⁽²⁾	Total Issued PCs and Structured Securities	Outstanding PCs and Structured Securities ⁽²⁾
	(in millions)			
Ending Balances:				
PCs and Structured Securities				
Single-family:				
Conventional:				
30-year fixed-rate ⁽³⁾	\$1,007,978	\$ 813,678	\$ 956,842	\$ 763,563
15-year fixed-rate	282,969	198,078	290,314	202,747
ARMs/Variable-rate	189,263	128,518	169,254	116,910
Option ARMs	2,545	274	2,808	303
Balloons/Resets	20,545	19,550	21,551	20,508
FHA/VA	1,386	1,244	1,398	1,267
Rural Housing Service and other federally guaranteed loans	136	136	139	139
<i>Total single-family</i>	<u>1,504,822</u>	<u>1,161,478</u>	<u>1,442,306</u>	<u>1,105,437</u>
Multifamily:				
Conventional:				
Fixed-rate	3,050	2,810	3,449	3,208
Variable-rate	4,775	4,635	4,966	4,825
<i>Total multifamily</i>	<u>7,825</u>	<u>7,445</u>	<u>8,415</u>	<u>8,033</u>
Structured Securities backed by non-Freddie Mac mortgage-related securities:				
Ginnie Mae Certificates ⁽⁴⁾	1,440	1,413	1,510	1,481
Structured Transactions ⁽⁵⁾	22,438	7,342	24,792	7,810
<i>Total Structured Securities backed by Non-Freddie Mac mortgage-related securities</i>	<u>23,878</u>	<u>8,755</u>	<u>26,302</u>	<u>9,291</u>
Total	<u><u>\$1,536,525</u></u>	<u><u>\$1,177,678</u></u>	<u><u>\$1,477,023</u></u>	<u><u>\$1,122,761</u></u>

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Issuance Detail:		
PCs and Structured Securities		
Single-family:		
Conventional:		
30-year fixed-rate ⁽³⁾	\$ 75,920	\$62,601
15-year fixed-rate	4,680	6,305
ARMs/Variable-rate	4,474	5,791
Interest-only	29,126	13,539
Balloon/Resets	10	180
FHA/VA	126	—
Rural Housing Service and other federally guaranteed loans	1	2
<i>Total single-family</i>	<u>114,337</u>	<u>88,418</u>
Multifamily:		
Conventional		
	20	312
<i>Total multifamily</i>	<u>20</u>	<u>312</u>
Structured Securities that are backed by non-Freddie Mac mortgage-related securities:		
Ginnie Mae Certificates ⁽⁴⁾	8	18
Structured Transactions ⁽⁶⁾	—	4,921
<i>Total Structured Securities backed by non-Freddie Mac mortgage-related securities</i>	<u>8</u>	<u>4,939</u>
Total Guaranteed PCs and Structured Securities Issued	<u><u>\$114,365</u></u>	<u><u>\$93,669</u></u>
Resecuritization Activity:		
Multi-class	\$ 25,689	\$45,409
Single-class	65,707	46,546
Total activity	<u><u>\$ 91,396</u></u>	<u><u>\$91,955</u></u>

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Represents PCs and Structured Securities held by third parties.

(3) Includes 40-year and 20-year fixed-rate mortgages.

(4) Ginnie Mae Certificates which underlie the Structured Securities are backed by FHA/VA loans.

(5) Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loans.

(6) Consists of \$4,921 million of option ARMs purchased for Structured Transactions during the three months ended March 31, 2006.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
	(dollars in millions, except share-related amounts)	
<i>Interest income</i>		
Mortgage loans	\$ 1,061	\$ 1,040
Mortgage-related securities	8,763	8,245
Cash and investments	972	774
Total interest income	<u>10,796</u>	<u>10,059</u>
<i>Interest expense</i>		
Short-term debt	(2,208)	(2,015)
Long-term debt	(7,176)	(6,433)
Total interest expense on debt securities	<u>(9,384)</u>	<u>(8,448)</u>
Due to Participation Certificate investors	(103)	(91)
Total interest expense	<u>(9,487)</u>	<u>(8,539)</u>
Expense related to derivatives	(331)	(389)
<i>Net interest income</i>	<u>978</u>	<u>1,131</u>
<i>Non-interest income (loss)</i>		
Management and guarantee income (includes interest on Guarantee asset of \$107 and \$107)	460	413
Gains (losses) on Guarantee asset	(410)	160
Income on Guarantee obligation	212	195
Derivative gains (losses)	(528)	273
Gains (losses) on investment activity	(183)	166
Gains on debt retirement	7	64
Resecuritization fees	19	48
Foreign currency losses, net	(197)	(3)
Other income	66	31
<i>Non-interest income (loss)</i>	<u>(554)</u>	<u>1,347</u>
<i>Non-interest expense</i>		
Salaries and employee benefits	(228)	(191)
Professional services	(108)	(100)
Occupancy expense	(14)	(14)
Other administrative expenses	(53)	(68)
Total administrative expenses	<u>(403)</u>	<u>(373)</u>
(Provision) benefit for credit losses	(179)	36
Real estate owned, or REO, operations expense	(14)	(12)
Losses on certain credit guarantees	(144)	(46)
Losses on loans purchased	(170)	(21)
Low-income housing tax credit partnerships	(108)	(115)
Other expenses	(56)	(53)
<i>Non-interest expense</i>	<u>(1,074)</u>	<u>(584)</u>
Income (loss) before income tax benefit	(650)	1,894
Income tax benefit	439	115
<i>Net income (loss)</i>	<u>\$ (211)</u>	<u>\$ 2,009</u>
Preferred stock dividends and issuance costs on redeemed preferred stock (including \$6 and \$— of issuance costs on redeemed preferred stock)	(95)	(58)
Amount allocated to participating stock option holders	—	(2)
<i>Net income (loss) available to common stockholders</i>	<u>\$ (306)</u>	<u>\$ 1,949</u>
Earnings (loss) per common share:		
Basic	\$ (0.46)	\$ 2.81
Diluted	\$ (0.46)	\$ 2.80
Weighted average common shares outstanding (in thousands)		
Basic	661,376	692,814
Diluted	661,376	694,596
Dividends per common share	\$ 0.50	\$ 0.47

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**FREDDIE MAC
CONSOLIDATED BALANCE SHEETS**

	March 31, 2007 (unaudited)	December 31, 2006
	(in millions, except share-related amounts)	
Assets		
<i>Retained portfolio</i>		
Mortgage loans:		
Held-for-investment, at amortized cost	\$ 65,015	\$ 63,780
Reserve for losses on mortgage loans held-for-investment	(92)	(70)
Held-for-sale, at lower-of-cost-or-market	1,779	1,908
Mortgage loans, net of reserve	66,702	65,618
Mortgage-related securities:		
Available-for-sale, at fair value (includes \$21,170 and \$20,463, respectively, pledged as collateral that may be repledged)	636,809	626,731
Trading, at fair value	8,201	7,597
Participation Certificate residuals, at fair value	339	597
Total mortgage-related securities	645,349	634,925
<i>Retained portfolio</i>	712,051	700,543
<i>Cash and investments</i>		
Cash and cash equivalents	10,002	11,359
Investments:		
Non-mortgage-related securities:		
Available-for-sale, at fair value	31,896	45,586
Securities purchased under agreements to resell and Federal funds sold	34,203	23,028
<i>Cash and investments</i>	76,101	79,973
Accounts and other receivables, net	7,277	7,461
Derivative assets, at fair value	6,159	7,908
Guarantee asset, at fair value	6,280	6,070
REO, net	878	743
Other assets	11,084	10,383
<i>Total assets</i>	<u>\$ 819,830</u>	<u>\$ 813,081</u>
Liabilities and stockholders' equity		
<i>Debt securities, net</i>		
Senior debt:		
Due within one year	\$ 280,242	\$ 294,861
Due after one year	472,638	452,677
Subordinated debt, due after one year	5,224	6,400
<i>Total debt securities, net</i>	758,104	753,938
Due to Participation Certificate investors	12,472	11,123
Accrued interest payable	7,009	8,345
Guarantee obligation	7,760	7,117
Derivative liabilities, at fair value	230	179
Reserve for guarantee losses on Participation Certificates	453	350
Other liabilities	3,514	3,212
<i>Total liabilities</i>	789,542	784,264
Commitments and contingencies (Notes 2, 3, 11 and 12)		
<i>Minority interests in consolidated subsidiaries</i>	514	516
<i>Stockholders' equity</i>		
Preferred stock, at redemption value	6,609	6,109
Common stock, \$0.21 par value, 726,000,000 shares authorized, 725,863,886 shares issued and 661,554,120 shares and 661,254,178 shares outstanding, respectively	152	152
Additional paid-in capital	961	962
Retained earnings	31,723	32,177
Accumulated other comprehensive income (loss), or AOCI, net of taxes, related to:		
Available-for-sale securities	(1,581)	(2,749)
Cash flow hedge relationships	(4,794)	(5,033)
Defined benefit plans	(81)	(87)
Total AOCI, net of taxes	(6,456)	(7,869)
Treasury stock, at cost, 64,309,766 shares and 64,609,708 shares, respectively	(3,215)	(3,230)
<i>Total stockholders' equity</i>	29,774	28,301
<i>Total liabilities and stockholders' equity</i>	<u>\$ 819,830</u>	<u>\$ 813,081</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Ended March 31,			
	2007		2006	
	Shares	Amount	Shares	Amount
	(in millions)			
<i>Preferred stock, at redemption value</i>				
Balance, beginning of year	132	\$ 6,109	92	\$ 4,609
Preferred stock issuances	44	1,100	—	—
Preferred stock redemptions	(12)	(600)	—	—
<i>Preferred stock, end of period</i>	<u>164</u>	<u>6,609</u>	<u>92</u>	<u>4,609</u>
<i>Common stock, par value</i>				
Balance, beginning of year	726	152	726	152
<i>Common stock, end of period</i>	<u>726</u>	<u>152</u>	<u>726</u>	<u>152</u>
<i>Additional paid-in capital</i>				
Balance, beginning of year		962		924
Stock-based compensation		19		4
Income tax benefit from stock-based compensation		1		5
Preferred stock issuance costs		(11)		—
Common stock issuances		(10)		1
<i>Additional paid-in capital, end of period</i>		<u>961</u>		<u>934</u>
<i>Retained earnings</i>				
Balance, beginning of year		32,177		31,559
Cumulative effect of change in accounting principle, net of taxes		181		(13)
Balance, beginning of year, as adjusted		32,358		31,546
Net income (loss)		(211)		2,009
Preferred stock dividends declared		(89)		(58)
Common stock dividends declared		(335)		(328)
<i>Retained earnings, end of period</i>		<u>31,723</u>		<u>33,169</u>
<i>AOCI, net of taxes</i>				
Balance, beginning of year		(7,869)		(8,773)
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		1,168		(3,799)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		239		367
Changes in defined benefit plans		6		—
<i>AOCI, net of taxes, end of period</i>		<u>(6,456)</u>		<u>(12,205)</u>
<i>Treasury stock, at cost</i>				
Balance, beginning of year	65	(3,230)	33	(1,280)
Common stock issuances	(1)	15	—	7
<i>Treasury stock, end of period</i>	<u>64</u>	<u>(3,215)</u>	<u>33</u>	<u>(1,273)</u>
<i>Total stockholders' equity</i>		<u>\$29,774</u>		<u>\$25,386</u>
<i>Comprehensive income (loss)</i>				
Net income (loss)		\$ (211)		\$ 2,009
Changes in other comprehensive income, net of taxes, net of reclassification adjustments		1,413		(3,432)
<i>Total comprehensive income (loss)</i>		<u>\$ 1,202</u>		<u>\$(1,423)</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Cash flows from operating activities		
Net income (loss)	\$ (211)	\$ 2,009
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Hedge accounting losses	—	13
Unrealized losses (gains) on derivatives not in hedge accounting relationships, net	567	(276)
Asset-related amortization — premiums, discounts and hedging basis adjustments	5	150
Debt-related amortization — premiums and discounts on certain debt securities and hedging basis adjustments	2,658	2,704
Net discounts paid on retirements of debt	(2,165)	(1,687)
Gains on debt retirement	(7)	(64)
Provision (benefit) for credit losses	179	(36)
Low-income housing tax credit partnerships losses	108	115
Losses on loans purchased	170	21
Losses on investment activity	17	31
(Decrease) increase in deferred income taxes	(876)	189
Purchases of held-for-sale mortgages	(4,176)	(4,537)
Sales of held-for-sale mortgages	4,080	4,469
Repayments of held-for-sale mortgages	29	18
Net (purchases) proceeds of trading securities	(601)	215
Change in accounts and other receivables, net	28	(495)
Change in amounts due to Participation Certificate investors	1,725	17
Change in accrued interest payable	(1,335)	(1,515)
Change in income taxes payable	239	(304)
Change in Guarantee asset, at fair value	(210)	(577)
Change in Guarantee obligation	641	344
Change in Participation Certificate residuals, at fair value	129	(230)
Other, net	173	167
<i>Net cash provided by operating activities</i>	<u>1,167</u>	<u>741</u>
Cash flows from investing activities		
Purchases of available-for-sale securities	(71,403)	(92,296)
Proceeds from sales of available-for-sale securities	13,848	22,607
Proceeds from maturities of available-for-sale securities	62,943	60,710
Purchases of held-for-investment mortgages	(4,419)	(3,976)
Repayments of held-for-investment mortgages	2,565	2,489
Proceeds from mortgage insurance and sales of REO	373	357
Net increase in securities purchased under agreements to resell and Federal funds sold	(11,175)	(8,236)
Derivative premiums and terminations, net	1,186	105
Investments in low-income housing tax credit partnerships	—	(11)
<i>Net cash used for investing activities</i>	<u>(6,082)</u>	<u>(18,251)</u>
Cash flows from financing activities		
Proceeds from issuance of short-term debt	237,289	156,104
Repayments of short-term debt	(242,097)	(163,162)
Proceeds from issuance of long-term debt	68,522	55,035
Repayments of long-term debt	(59,873)	(31,647)
Repayments of minority interests in consolidated subsidiaries	(1)	(114)
Repurchase of Real Estate Investment Trust preferred stock	(1)	—
Proceeds from the issuance of preferred stock	1,089	—
Redemption of preferred stock	(600)	—
Proceeds from issuance of common stock	5	8
Payment of cash dividends on preferred stock and common stock	(424)	(386)
Excess tax benefits associated with stock-based awards	2	7
Payments of low-income housing tax credit partnerships notes payable	(351)	(319)
(Decrease) increase in cash overdraft	(2)	24
<i>Net cash provided by financing activities</i>	<u>3,558</u>	<u>15,550</u>
Net decrease in Cash and cash equivalents	(1,357)	(1,960)
Cash and cash equivalents at beginning of year	11,359	10,468
<i>Cash and cash equivalents at end of period</i>	<u>\$ 10,002</u>	<u>\$ 8,508</u>
Supplemental cash flow information		
Cash paid (received) for:		
Interest	\$ 10,730	\$ 9,428
Derivative interest carry, net	(314)	(715)
Income taxes	198	—
Non-cash investing and financing activities:		
Held-for-sale mortgages securitized and retained as available-for-sale securities	169	8
Transfers from mortgage loans to REO	526	381
Investments in low-income housing tax credit partnerships financed by notes payable	—	14
Transfers from held-for-sale mortgages to held-for-investment mortgages	40	33
Transfers of Retained portfolio Participation Certificates to held-for-investment mortgages	405	378

The accompanying notes are an integral part of these unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We are a stockholder-owned government-sponsored enterprise, or GSE, established by Congress in 1970 to provide a continuous flow of funds for residential mortgages. Our obligations are ours alone and are not insured or guaranteed by the U.S. government, or any other agency or instrumentality of the U.S. We play a fundamental role in the U.S. housing finance system, linking the domestic mortgage market and the global capital markets. Our participation in the secondary mortgage market includes providing our credit guarantee on securities backed by residential mortgages originated by mortgage lenders and investing in mortgage loans and mortgage-related securities that we hold in our Retained portfolio. Through our credit guarantee activities, we securitize mortgage loans by issuing Mortgage Participation Certificates, or PCs, to third-party investors. We also resecuritize mortgage-related securities that are issued by us or the Government National Mortgage Association, or Ginnie Mae, as well as non-agency entities. We also guarantee the payment of principal and interest with respect to multifamily mortgage loans that support housing revenue bonds issued by third parties. Securitized mortgage-related assets that back PCs and Structured Securities that are held by third parties are not reflected as our assets. In return for providing our guarantee on issued PCs and Structured Securities, we may earn a management and guarantee fee that is paid to us over the life of the related PCs and Structured Securities. Our guarantee of the payment of principal and interest on outstanding PCs and Structured Securities is reflected in our consolidated financial statements through the recognition of a Guarantee asset and Guarantee obligation.

Basis of Presentation

The accompanying unaudited consolidated financial statements include our accounts and those of our subsidiaries, and should be read in conjunction with the audited consolidated financial statements and related notes included in our Information Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2006 dated March 23, 2007, or 2006 Information Statement.

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles, or GAAP, but is not required for interim reporting purposes has been condensed or omitted. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair statement of our unaudited consolidated financial statements in accordance with GAAP.

Changes in Estimates and Accounting Principles

The preparation of financial statements requires the use of estimates and assumptions. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements in our 2006 Information Statement for a discussion of our estimates and assumptions.

Table 1.1 shows the pre-tax impact of the changes in estimates in our consolidated statements of income:

Table 1.1 — Summary of Changes in Estimates (Pre-Tax)

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Interest income.....	\$ —	\$(93)
<i>Non-interest income (loss)</i>		
Management and guarantee income	—	18
Gains (losses) on Guarantee asset.....	(25)	40
Gains (losses) on investment activity	1	47
Total Non-interest income (loss).....	(24)	105
Total pre-tax impact of changes in estimates	\$(24)	\$ 12
Total after-tax impact of changes in estimates	\$(16)	\$ 8

Changes in estimates (decreased) increased Net income (loss) for the three months ended March 31, 2007 and 2006 by approximately \$(16) million and \$8 million (after-tax), or \$(0.02) and \$0.01 per diluted common share, respectively. The decrease for the three months ended March 31, 2007 was due to enhancements to our approach for estimating prepayments impacting our Guarantee asset and Guarantee obligation.

Effective January 1, 2006, we enhanced our process for forecasting interest rates and estimating prepayments used to amortize discounts, premiums and deferred fees for assets held in our Retained portfolio. This change resulted in a \$49 million (after-tax) reduction in Net income (loss) for the three months ended March 31, 2006, including the effect of the amortization of deferred credit fees. Also, effective January 1, 2006, we enhanced our approach for Guarantee

asset and Guarantee obligation valuations primarily with respect to applying dealer prices in estimating the fair value of our guarantee-related assets. We also enhanced our approach for applying loan characteristics in the valuation of our Guarantee obligation. These changes resulted in a \$57 million (after-tax) increase in Net income (loss) for the three months ended March 31, 2006.

Effective January 1, 2006, we made a change to our method of amortization for certain types of non-agency securities resulting in a \$13 million (after-tax) reduction to the beginning balance of retained earnings.

Net income (loss) included after-tax adjustments of approximately \$33 million of expense and \$43 million of income, for the three months ended March 31, 2007 and 2006, to correct certain immaterial errors related to previously reported periods.

Recently Adopted Accounting Standards

Accounting for Uncertainty in Income Taxes — On January 1, 2007, we adopted Financial Accounting Standard Board, or FASB, Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,” or FIN 48. FIN 48 provides a single model to address accounting for uncertain tax positions and clarifies accounting for income taxes by prescribing a minimum threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Upon adoption of FIN 48, we recorded a \$181 million decrease to accrued income taxes payable and an increase to retained earnings. The adjustment is the result of the recognition of a benefit related to tax return claims considered to be gain contingencies. In addition, we recorded an increase to deferred tax assets and a corresponding increase to accrued income taxes payable of \$601 million as a result of the FIN 48 requirement that deferred taxes due to uncertain tax positions not be combined with deferred tax liabilities or assets.

At January 1, 2007, we had total unrecognized tax benefits, exclusive of interest, of \$677 million. Included in the \$677 million are \$76 million of unrecognized tax benefits that, if recognized, would reduce our effective tax rate. The remaining \$601 million of unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain, but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than applicable interest, would not affect our effective tax rate. There were no material changes in our unrecognized tax benefits during the three months ended March 31, 2007.

We continue to recognize interest and penalties, if any, in income tax expense. As of January 1, 2007, we have total accrued interest receivable, net of tax effect, of approximately \$67 million. Amounts included in total accrued interest relate to: (a) unrecognized tax benefits, (b) pending claims with the Internal Revenue Service, or IRS, for open tax years, (c) the tax benefit related to tax return claims previously treated as gain contingencies and (d) the impact of payments made to the IRS in prior years in anticipation of potential tax deficiencies. Of the \$67 million of accrued interest receivable, approximately \$105 million of accrued interest payable, net of tax effect, is allocable to unrecognized tax benefits. There were no material changes in our accrued interest during the three months ended March 31, 2007. We have no amount accrued for penalties.

The statute of limitations for federal income tax purposes is open on tax returns filed for years 1985 to 2005. The IRS is currently examining tax years 1998 to 2005. Tax years 1985 to 1997 are before the U.S. Tax Court. We are currently in settlement discussions with the IRS regarding the tax treatment of the customer relationship intangible asset recognized upon our transition from non-taxable to taxable status in 1985. We believe it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months, however we cannot predict the amount of such change or the range of potential changes.

Accounting for Certain Hybrid Instruments — On January 1, 2007, we adopted Statement of Financial Accounting Standards, or SFAS, No. 155, “Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140,” or SFAS 155, with further guidance provided in Derivatives Implementation Group Statement 133 Implementation Issue No. B40 “Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets.” These statements amend SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125,” or SFAS 140. The objective of these statements is to simplify the accounting for certain hybrid financial instruments, permitting fair value measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation. In addition, these statements establish a requirement to evaluate interests in securitized financial assets to identify instruments that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. We adopted SFAS 155 prospectively, and, therefore, there is no cumulative effect of a change in accounting principle. In connection with the adoption of SFAS 155 on January 1, 2007, we elected to measure newly acquired

interests in securitized financial assets that contain embedded derivatives at fair value, with changes in fair value reflected in our consolidated statements of income. The impact of adoption was not material.

Recently Issued Accounting Standards, Not Yet Adopted

Fair Value Measurements — In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” or SFAS 157. This statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, but does not change existing guidance as to whether a financial asset or liability is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. We do not believe the adoption will result in a material difference to our fair value measurements.

The Fair Value Option for Financial Assets and Financial Liabilities — In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115,” or SFAS 159. This statement permits companies to choose to measure certain financial assets and liabilities at fair value with changes in fair value recognized in earnings as they occur. The objective is to improve financial reporting by providing entities with the opportunity to measure both assets and liabilities at fair value without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007, with early adoption permitted. We have not yet determined the impact, if any, that the adoption of this standard will have on our consolidated financial statements.

Offsetting of Amounts Related to Certain Contracts — In April 2007, the FASB issued FASB Staff Position FIN 39-1, “Amendment of FASB Interpretation No. 39,” or FSP FIN 39-1. The position amends FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts, an interpretation of APB Opinion No. 10 and FASB Statement No. 105,” to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. When offsetting of fair value amounts recognized for derivative instruments is elected, as permitted under a master netting agreement, the position requires the offsetting of amounts recognized for cash collateral held or posted when the collateral represents “fair value amounts.” FSP FIN 39-1 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. We have determined that the adoption of FSP FIN 39-1 will result in the reclassification of amounts in our consolidated financial statements.

NOTE 2: FINANCIAL GUARANTEES AND SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS

Financial Guarantees

We provide a variety of financial guarantees. For a discussion of these guarantees see “NOTE 2: TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS” and “NOTE 4: FINANCIAL GUARANTEES” to our consolidated financial statements in our 2006 Information Statement. Table 2.1 below presents our maximum potential amount of future payments, our recognized liability and the maximum remaining term of these guarantees.

Table 2.1 — Financial Guarantees

	March 31, 2007			December 31, 2006		
	Maximum Exposure	Recognized Liability	Maximum Remaining Term	Maximum Exposure	Recognized Liability	Maximum Remaining Term
	(dollars in millions, terms in years)					
Financial Guarantees:						
Guaranteed PCs and Structured Securities held by third parties ⁽¹⁾	\$1,177,678	\$7,760	40	\$1,122,761	\$7,117	40
Derivative instruments	38,387	109	28	27,917	13	28
Servicing-related premium guarantees	31	—	5	44	—	5

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled. Due to timing differences in our receipt of principal and interest payments from mortgage servicers and subsequent pass-through of payments to PC investors, the unpaid principal balances of the underlying mortgage loans do not equal the unpaid principal balances of issued PCs and Structured Securities.

With the exception of interest-rate swap guarantees included in derivative instruments in Table 2.1, maximum exposure represents the contractual amounts that could be lost under the guarantees if guaranteed parties defaulted, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. The maximum exposure related to interest-rate swap guarantees is based on contractual rates and without consideration of recovery under recourse provisions. Maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience.

Guaranteed PCs and Structured Securities

We guarantee the payment of principal and interest on issued PCs and Structured Securities. At March 31, 2007 and December 31, 2006, we guaranteed \$1,536.5 billion and \$1,477.0 billion of PCs and Structured Securities, respectively, of which \$358.8 billion and \$354.3 billion were held in our Retained portfolio at March 31, 2007 and December 31, 2006, respectively. There were \$1,290.4 billion and \$1,240.2 billion at March 31, 2007 and December 31, 2006, respectively, of Structured Securities backed by resecuritized PCs and other previously issued Structured Securities. These restructured securities do not increase our credit-related exposure and consist of single-class and multi-class Structured Securities backed by PCs, Real Estate Mortgage Investment Conduits, or REMICs, and principal-only strips.

The recognized liability associated with our guarantee of PCs and Structured Securities held by third parties represents our Guarantee obligation, which at March 31, 2007 and December 31, 2006 includes our estimate of performance and other related costs of \$5.4 billion and \$4.9 billion, respectively, and deferred guarantee income of \$2.4 billion and \$2.2 billion, respectively. In addition to our Guarantee obligation, we recognized a Reserve for guarantee losses on Participation Certificates that totaled \$453 million and \$350 million at March 31, 2007 and December 31, 2006, respectively.

At March 31, 2007 and December 31, 2006, approximately 95 percent and 94 percent, respectively, of issued PCs and Structured Securities (excluding securities we issued that are backed by Ginnie Mae Certificates) had a corresponding Guarantee asset, Guarantee obligation or PC residual recognized on our consolidated balance sheets. With respect to such securities held by third parties at March 31, 2007 and December 31, 2006, 96 percent and 95 percent, respectively, had a related Guarantee asset and Guarantee obligation established.

Derivative Instruments

Derivative instruments include written options, written swaptions, interest-rate swap guarantees and guarantees of stated final maturity of Structured Securities.

Servicing-Related Premium Guarantees

We provide guarantees to reimburse servicers for premiums paid to acquire servicing in situations where the original seller is unable to perform under its separate servicing agreement. The liability associated with these agreements was not material.

Other Financial Commitments

As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we provided a commitment to advance funds, commonly referred to as "liquidity guarantees," totaling \$5.2 billion and \$5.8 billion at March 31, 2007 and December 31, 2006, respectively. These guarantees enable the repurchase by others of tendered tax-exempt (and related taxable) pass-through certificates and housing revenue bonds that are unable to be remarketed. Any repurchased securities could be pledged to us to secure such funding until such time as the securities could be remarketed. We have not made any payments to date under these liquidity guarantees.

Valuation of Recognized Guarantee Asset

Recognized Guarantee asset

Our approach for estimating the fair value of the Guarantee asset makes use of third-party market data as practicable. For approximately 75 percent of the fair value of the Guarantee asset at March 31, 2007, the valuation approach involved obtaining dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio, effectively equating the Guarantee asset with current, or "spot," market values for excess servicing interest-only securities, which trade at a discount to trust interest-only security prices. The remaining 25 percent of the Guarantee asset, which relates to underlying loan products for which comparable market prices are not readily available, is valued using an expected cash flow approach with market input assumptions extracted from the dealer quotes provided on the more liquid products, reduced by an estimated liquidity discount.

Key assumptions used in the valuation of the Guarantee asset

Table 2.2 summarizes the key assumptions associated with the fair value measurements of the recognized Guarantee asset. The fair values at the time of securitization and the subsequent fair value measurements were estimated using third party information, however, the assumptions included in this table for those periods are those implied by our fair value estimates, with the internal rates of return, or IRRs, adjusted where necessary to align our internal models with estimated fair values determined using third party information. Prepayment rates are presented as implied by our internal models and have not been similarly adjusted.

At March 31, 2007, our Guarantee asset totaled \$6,280 million on our consolidated balance sheets and of that amount, approximately \$6,119 million, or approximately 97 percent, related to PCs and Structured Securities backed by

single-family mortgage loans. The key assumptions utilized in fair value measurements of the Guarantee asset presented in Table 2.2 and the sensitivity analysis presented in Table 2.3 relate solely to the Guarantee asset associated with PCs and Structured Securities backed by single-family mortgage loans.

Table 2.2 — Key Assumptions Utilized in Fair Value Measurements of the Guarantee Asset

Valuation Assumptions for the Guarantee Asset	Three Months Ended March 31,			
	2007		2006	
	Range ⁽¹⁾	Mean ⁽²⁾	Range ⁽¹⁾	Mean ⁽²⁾
Internal rates of return ⁽³⁾	1.0% – 12.6%	7.0%	5.5% – 13.5%	8.9%
Prepayment rates ⁽⁴⁾	9.0% – 64.6%	19.2%	7.9% – 51.0%	15.1%

- (1) The lowest value in each presented range represents the first percentile IRRs and prepayment rates throughout the three months ended March 31, 2007 and 2006. Likewise, the highest value in each range represents the 99th percentile IRRs and prepayment rates throughout the three months ended March 31, 2007 and 2006.
- (2) Reported values represent the weighted average value of all IRRs and prepayment rates throughout the three months ended March 31, 2007 and 2006.
- (3) Represent an unpaid principal balance weighted average of the discount rates inherent in the fair value of the recognized Guarantee asset.
- (4) Average prepayment rates are simulated on a monthly frequency, although rates reported above represent an unpaid principal balance weighted average of annualized values of such prepayment rates.

Weighted average lives of the Guarantee asset during the three months ended March 31, 2007, ranged between 1.5 and 7.8 years, while the derived weighted average lives of the Guarantee asset was 4.8 years. Weighted average lives of the Guarantee asset during the three months ended March 31, 2006, ranged between 1.8 and 8.7 years, while the derived weighted average lives of the Guarantee asset was 5.6 years. Such derived weighted average lives are reflective of prepayment rate assumptions cited in Table 2.2 above.

Table 2.3 — Sensitivity Analysis of the Guarantee Asset (Single-Family Mortgages)

	March 31, 2007	December 31, 2006
	(dollars in millions)	
Fair value ⁽¹⁾	\$6,119	\$5,905
Weighted average IRR assumptions:	6.9%	7.0%
Impact on fair value of 100 bps unfavorable change	\$ (231)	\$ (224)
Impact on fair value of 200 bps unfavorable change	\$ (445)	\$ (431)
Weighted average prepayment rate assumptions:	19.9%	18.4%
Impact on fair value of 10% unfavorable change	\$ (324)	\$ (298)
Impact on fair value of 20% unfavorable change	\$ (613)	\$ (565)

- (1) At March 31, 2007 and December 31, 2006, our Guarantee asset totaled \$6,280 million and \$6,070 million, respectively, on our consolidated balance sheet. Of those amounts, approximately \$161 million and \$165 million, or approximately 3 percent, related to PCs backed by multifamily mortgage loans at March 31, 2007 and December 31, 2006, respectively. The sensitivity analysis relates solely to the Guarantee asset associated with the PCs backed by single-family mortgage loans.

Valuation of Other Retained Interests

Other retained interests include securities that were issued by us as part of a securitization transaction which was recorded as a sale. The majority of these securities are classified as available-for-sale. The fair value of other retained interests is generally based on independent price quotations obtained from third-party pricing services or dealer marks.

To report the hypothetical sensitivity of the carrying value of other retained interests, we used internal models calibrated to the fair values. The sensitivity analysis in Table 2.4 illustrates hypothetical adverse changes in the fair value of other retained interests for changes in key assumptions based on these models.

Table 2.4 — Sensitivity Analysis of Other Retained Interests

	March 31, 2007	December 31, 2006
	(dollars in millions)	
Fair value ⁽¹⁾	\$125,702	\$127,490
Weighted average IRR assumptions:	5.5%	5.6%
Impact on fair value of 100 bps unfavorable change	\$ (4,628)	\$ (4,551)
Impact on fair value of 200 bps unfavorable change	\$ (8,952)	\$ (8,813)
Weighted average prepayment rate assumptions:	10.4%	11.0%
Impact on fair value of 10% unfavorable change	\$ (71)	\$ (66)
Impact on fair value of 20% unfavorable change	\$ (138)	\$ (132)

- (1) The fair value of other retained interest includes accrued interest. The sensitivity analysis includes only other retained interests whose fair value is impacted as a result of changes in IRR and prepayment assumptions. At March 31, 2007 and December 31, 2006, the fair value of other retained interests not impacted due to IRR and prepayment assumptions was \$548 million and \$51 million, respectively.

Gains and Losses on Transfers of PCs and Structured Securities that are Accounted for as Sales

We recognized net pre-tax gains of approximately \$69 million and \$39 million for the three months ended March 31, 2007 and 2006, respectively, on transfers of PCs and Structured Securities that were accounted for as sales under SFAS 140.

Cash Flows on Transfers of Securitized Interests and Corresponding Retained Interests

Table 2.5 below summarizes cash flows on retained interests.

Table 2.5 — Details of Cash Flows

	Three Months Ended March 31,	
	2007	2006
(in millions)		
Cash flows from:		
Transfers of Freddie Mac securities that were accounted for as sales	\$13,197	\$13,201
Payments received on the Guarantee asset ⁽¹⁾	419	351
Other retained interests principal and interest	5,999	5,626

(1) Represents contractual guarantee-related cash flows received by us in connection with the recognized Guarantee asset.

Credit Protection and Other Forms of Recourse

In connection with our outstanding guarantees of PCs and Structured Securities held by third parties, we had recourse in the form of primary mortgage insurance, pool insurance, recourse to lenders, credit enhancements and other forms of credit protection. Table 2.6 presents the distribution of our credit protection.

Table 2.6 — Credit Protection and Other Forms of Recourse⁽¹⁾

	March 31, 2007	December 31, 2006
	(in millions)	
PCs and Structured Securities:		
Single-family:		
Primary mortgage insurance	\$31,872	\$30,720
Pool insurance and other credit enhancements	3,175	3,178
Recourse to lenders	9,195	8,875
Multifamily:		
Credit enhancements	807	1,104
Structured Securities backed by Ginnie Mae Certificates ⁽²⁾	1,413	1,481

(1) Excludes credit enhancements related to outstanding Structured Transactions, which had unpaid principal balances that totaled \$7.3 billion and \$7.8 billion at March 31, 2007 and December 31, 2006, respectively. At March 31, 2007 and December 31, 2006, we recorded credit enhancements of \$499 million and \$466 million in Other assets on our consolidated balance sheets, respectively.

(2) Ginnie Mae Certificates are backed by the full faith and credit of the U.S. government.

Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (*e.g.*, those arising from representations and warranties) in contracts entered into in the normal course of business. For a discussion of these indemnifications see “NOTE 4: FINANCIAL GUARANTEES” to our consolidated financial statements in our 2006 Information Statement. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no reasonably probable and estimable losses associated with these contracts. Therefore, we have not recorded any liabilities related to these indemnifications on our consolidated balance sheets at March 31, 2007 and December 31, 2006.

NOTE 3: VARIABLE INTEREST ENTITIES

We are a party to numerous entities that are considered to be variable interest entities, or VIEs. Our investments in VIEs include low-income housing tax credit, or LIHTC, partnerships, certain Structured Securities transactions and a mortgage reinsurance entity. In addition, we buy the highly-rated senior securities in certain securitization trusts that are VIEs. Our investments in these securities do not represent a significant variable interest in the securitization trusts as the securities issued by these trusts are not designed to absorb a significant portion of the variability in the trust. As such, we do not consolidate these securities.

Low-Income Housing Tax Credit Partnerships

We invest as a limited partner in LIHTC partnerships formed for the purpose of providing funding for affordable multifamily rental properties. Most of these LIHTC partnerships are VIEs. A general partner operates the partnership, identifying investments and obtaining debt financing as needed to finance partnership activities. Although these partnerships generate operating losses, we realize a return on our investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. These investments were made between 1989 and 2006. At March 31, 2007 and December 31, 2006, we did not guarantee any obligations of these partnerships and our exposure was limited to the amount of our investments. At March 31, 2007 and December 31, 2006, we were the primary beneficiary of investments in six LIHTC partnerships and we consolidated

these investments. The investors in the obligations of the consolidated LIHTC partnerships have recourse only to the assets of those VIEs and do not have recourse to us.

VIEs Not Consolidated

Low-Income Housing Tax Credit Partnerships

At March 31, 2007 and December 31, 2006, we had unconsolidated investments in 178 and 179 LIHTC partnerships, respectively, in which we had a significant variable interest. The size of these partnerships at March 31, 2007 and December 31, 2006, as measured in total assets, was \$8.9 billion. These partnerships are accounted for using the equity method. As a limited partner, our maximum exposure to loss equals the undiscounted book value of our equity investment. At March 31, 2007 and December 31, 2006, our maximum exposure to loss on unconsolidated LIHTC partnerships, in which we had a significant variable interest, was \$3.6 billion and \$3.7 billion, respectively.

Structured Transactions

We periodically issue securities in Structured Transactions, which are backed by mortgage loans or mortgage-related securities using collateral pools transferred to trusts specifically created for the purpose of issuing securities. These trusts issue various senior interests, subordinated interests or both. We purchase interests, including senior interests, of the trusts and simultaneously issue and guarantee Structured Securities backed by these interests. The subordinated interests are generally either held by the seller or other party or sold in the capital markets. Generally, the structure of the transactions and the trusts as qualifying special purpose entities exempts them from the scope of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," or FIN 46(R). However, at March 31, 2007 and December 31, 2006, we had investments or guarantees related to two Structured Transactions that did not fall within this scope exception and in which we had a significant variable interest. At March 31, 2007 and December 31, 2006, we were not the primary beneficiary of any such transactions.

Our involvement in these two Structured Transactions began in 1996 and 2002, respectively. The size of these two transactions at March 31, 2007 and December 31, 2006, as measured in total assets, was \$62 million and \$67 million, respectively. At March 31, 2007 and December 31, 2006, our maximum exposure to loss on these transactions, in which we had a significant variable interest, was \$51 million and \$55 million, respectively, consisting of the book value of our investments plus incremental guarantees of the senior interests that are held by third parties.

NOTE 4: RETAINED PORTFOLIO AND CASH AND INVESTMENTS PORTFOLIO

Table 4.1 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses by major security type for available-for-sale securities.

Table 4.1 — Available-For-Sale Securities

<u>March 31, 2007</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(in millions)			
<i>Retained portfolio</i>				
Mortgage-related securities issued by:				
Freddie Mac	\$351,434	\$2,127	\$(4,045)	\$349,516
Federal National Mortgage Association, or Fannie Mae	43,348	392	(500)	43,240
Ginnie Mae	664	18	(4)	678
Other	229,858	517	(1,035)	229,340
Obligations of states and political subdivisions	<u>13,781</u>	<u>296</u>	<u>(42)</u>	<u>14,035</u>
Total mortgage-related securities	<u>639,085</u>	<u>3,350</u>	<u>(5,626)</u>	<u>636,809</u>
<i>Cash and investments portfolio</i>				
Non-mortgage-related securities:				
Asset-backed securities	31,729	25	(55)	31,699
Obligations of states and political subdivisions	197	—	—	197
Total non-mortgage-related securities	<u>31,926</u>	<u>25</u>	<u>(55)</u>	<u>31,896</u>
Total available-for-sale securities	<u>\$671,011</u>	<u>\$3,375</u>	<u>\$(5,681)</u>	<u>\$668,705</u>
<u>December 31, 2006</u>				
<i>Retained portfolio</i>				
Mortgage-related securities issued by:				
Freddie Mac	\$347,700	\$1,753	\$(5,365)	\$344,088
Fannie Mae	44,223	323	(660)	43,886
Ginnie Mae	720	17	(4)	733
Other	224,642	553	(1,096)	224,099
Obligations of states and political subdivisions	<u>13,622</u>	<u>334</u>	<u>(31)</u>	<u>13,925</u>
Total mortgage-related securities	<u>630,907</u>	<u>2,980</u>	<u>(7,156)</u>	<u>626,731</u>
<i>Cash and investments portfolio</i>				
Non-mortgage-related securities:				
Asset-backed securities	32,179	23	(80)	32,122
Obligations of states and political subdivisions	2,273	—	—	2,273
Commercial paper	<u>11,191</u>	<u>—</u>	<u>—</u>	<u>11,191</u>
Total non-mortgage-related securities	<u>45,643</u>	<u>23</u>	<u>(80)</u>	<u>45,586</u>
Total available-for-sale securities	<u>\$676,550</u>	<u>\$3,003</u>	<u>\$(7,236)</u>	<u>\$672,317</u>

We have the ability and intent to hold available-for-sale securities that may be currently in an unrealized loss position for a period of time sufficient to recover all unrealized losses. Based on our ability and intent to hold these available-for-sale securities, we have concluded that the impairment of these securities is temporary.

Table 4.2 below illustrates the gross realized gains and gross realized losses from the sale of available-for-sale securities.

Table 4.2 — Gross Realized Gains and Gross Realized Losses on Available-For-Sale Securities

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
	(in millions)	
Gross realized gains	\$60	\$192
Gross realized (losses)	(9)	(46)
Net realized gains (losses)	<u>\$51</u>	<u>\$146</u>

For the three months ended March 31, 2007 and 2006, we recorded impairments related to investments in securities of \$103 million and \$133 million, respectively.

Table 4.3 presents the changes in AOCI, net of taxes, related to available-for-sale securities. The Net unrealized holding gains (losses), net of tax, represents the net fair value adjustments recorded on available-for-sale securities throughout the period, after the effects of our statutory tax rate of 35 percent. The Net reclassification adjustment for net realized losses (gains), net of tax, represents the amount of those fair value adjustments, after the effects of our statutory tax rate of 35 percent, that have been recognized in earnings due to a sale of an available-for-sale security or the recognition of an impairment loss.

Table 4.3 — AOCI, Net of Taxes, Related to Available-For-Sale Securities

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Beginning balance	\$(2,749)	\$(2,485)
Net unrealized holding gains (losses), net of tax ⁽¹⁾	1,139	(3,784)
Net reclassification adjustment for realized losses (gains), net of tax ⁽²⁾⁽³⁾	29	(15)
Ending balance	<u>\$(1,581)</u>	<u>\$(6,284)</u>

(1) Net of tax expense (benefit) of \$613 million and \$(2,037) million for the three months ended March 31, 2007 and 2006, respectively. Includes the fair value adjustments of available-for-sale Participation Certificate residuals, net of tax.

(2) Net of tax benefit (expense) of \$16 million and \$(8) million for the three months ended March 31, 2007 and 2006, respectively.

(3) Includes the reversal of previously recorded unrealized losses that have been recognized as impairment losses on available-for-sale securities of \$63 million and \$84 million, net of taxes, for the three months ended March 31, 2007 and 2006, respectively.

Table 4.4 summarizes the estimated fair values by major security type for trading securities in our Retained portfolio.

Table 4.4 — Trading Securities in the Retained Portfolio

	March 31, 2007	December 31, 2006
	(in millions)	
Mortgage-related securities issued by:		
Freddie Mac	\$7,085	\$6,573
Fannie Mae	905	802
Ginnie Mae	211	222
Total trading securities in the Retained portfolio	<u>\$8,201</u>	<u>\$7,597</u>

For the three months ended March 31, 2007 and 2006, we recorded net unrealized gains (losses) on trading securities held at March 31, 2007 and 2006 of \$29 million and \$(52) million, respectively.

Retained Portfolio Voluntary Growth Limit

Effective July 1, 2006, we voluntarily limited the growth of our Retained portfolio to no more than 2.0 percent annually (and 0.5 percent quarterly on a cumulative basis) based on its carrying value as reported in our minimum capital report to the Office of Federal Housing Enterprise Oversight, or OFHEO, filed on July 28, 2006, which was \$710.3 billion. This voluntary, temporary growth limit was made in response to a request from OFHEO. At March 31, 2007, the carrying value of the Retained portfolio as reported on our consolidated balance sheets was approximately \$712 billion, below the voluntary limit of approximately \$721 billion at that time.

Collateral Pledged

Collateral Pledged to Freddie Mac

Our counterparties are required to pledge collateral for reverse repurchase transactions and most interest-rate swap agreements, after giving consideration to collateral posting thresholds generally related to a counterparty's credit rating. Even though it is our practice not to repledge assets held as collateral, based on master agreements related to our interest-rate swap agreements, a portion of the collateral may be repledged. At March 31, 2007 and December 31, 2006, we did not have collateral in the form of securities pledged to and held by us under interest-rate swap agreements.

Collateral Pledged by Freddie Mac

We are also required to pledge collateral for margin requirements with third-party custodians in connection with secured financings, interest-rate swap agreements, futures and daily trade activities with some counterparties. The level of collateral pledged related to our interest-rate swap agreements is determined after giving consideration to our credit rating. In 2006, we opened three uncommitted intraday lines of credit with third-parties, two of which are secured, in connection with the Federal Reserve Board's revised payments system risk policy, which restricts or eliminates daylight overdrafts by GSEs, including us, in connection with our use of the Fedwire system. In certain limited circumstances, the line of credit agreements give the secured parties the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank. We pledge collateral to meet these requirements upon a demand by the respective counterparty.

Table 4.5 summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged.

Table 4.5 — Collateral in the Form of Securities Pledged

	March 31, 2007	December 31, 2006
	(in millions)	
Securities pledged with ability for secured party to repledge (parenthetically disclosed on our consolidated balance sheets):		
Available-for-sale	\$21,170	\$20,463
Securities pledged without ability for secured party to repledge:		
Available-for-sale	216	225
Total securities pledged	<u>\$21,386</u>	<u>\$20,688</u>

NOTE 5: LOAN LOSS RESERVES

We maintain separate loan loss reserves for mortgage loans in our Retained portfolio that we classify as held-for-investment and for credit-related losses associated with certain mortgage loans that underlie guaranteed PCs and Structured Securities held by third parties.

Table 5.1 summarizes loan loss reserve activity during the periods presented.

Table 5.1 — Detail of Loan Loss Reserves Balance

	Three Months Ended March 31,					
	2007			2006		
	Reserves related to:		Total Loan Loss Reserves	Reserves related to:		Total Loan Loss Reserves
Retained Mortgages	PCs Outstanding	Retained Mortgages		PCs Outstanding		
	(in millions)					
Beginning balance	\$ 70	\$350	\$420	\$119	\$295	\$414
Provision for credit losses	55	124	179	30	(66)	(36)
Charge-offs ⁽¹⁾⁽²⁾	(82)	—	(82)	(72)	—	(72)
Recoveries ⁽¹⁾	49	—	49	42	—	42
Transfers-out ⁽³⁾	—	(23)	(23)	—	(6)	(6)
Other transfers ⁽⁴⁾	—	2	2	—	3	3
Ending balance	<u>\$ 92</u>	<u>\$453</u>	<u>\$545</u>	<u>\$119</u>	<u>\$226</u>	<u>\$345</u>

- (1) It is our practice to purchase mortgage loans from the pools that underlie PCs principally at the point a mortgage loan is identified as being 120 days past due. Because all credit losses related to off-balance sheet PCs are preceded by the purchase of a delinquent mortgage loan from the PC pool, all charge-offs or recoveries are presented in the Retained Mortgages columns above.
- (2) Represents the amount of the unpaid principal balance of a loan that has been discharged using the reserve balance to remove the loan from our Retained portfolio at the time of resolution. Excludes \$11 million for the three months ended March 31, 2007 related to reserve amounts previously transferred to reduce the carrying value of loans purchased under financial guarantees.
- (3) Consists of the transfer of reserves, including amounts attributable to uncollectible interest, associated with non-performing loans purchased from mortgage pools underlying PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase.
- (4) Represents transfers of a portion of the initial Guarantee obligation associated with credit losses reclassified to the reserve balance allocated to PCs outstanding.

Impaired Loans

Single-family impaired loans include performing and non-performing troubled debt restructurings, as well as delinquent loans that were purchased from mortgage collateral pools underlying PCs and Structured Securities and long-term standby agreements. Multifamily impaired loans are defined as troubled debt restructuring loans, non-credit-enhanced loans greater than 60 days delinquent and certain mortgage loans identified as individually impaired. Recorded investment on impaired loans includes the unpaid principal balance plus amortized basis adjustments, which are modifications to their carrying value.

Total loan loss reserves, as presented in “Table 5.1 — Detail of Loan Loss Reserves Balance,” consists of a specific valuation allowance related to impaired loans, which is presented in Table 5.2 and a reserve for other probable incurred losses. The specific valuation allowance related to impaired loans includes an allowance related to an additional decline in the fair value of loans of \$6 million at March 31, 2007.

Our recorded investment in impaired loans and the related valuation allowance are summarized in Table 5.2.

Table 5.2 — Impaired Loans

	March 31, 2007			December 31, 2006		
	Recorded Investment	Specific Reserve	Net Investment	Recorded Investment	Specific Reserve	Net Investment
	(in millions)					
Impaired loans having:						
Related valuation allowance	\$ 241	\$(15)	\$ 226	\$ 86	\$(6)	\$ 80
No related valuation allowance ⁽¹⁾	<u>6,606</u>	<u>—</u>	<u>6,606</u>	<u>5,869</u>	<u>—</u>	<u>5,869</u>
Total	<u>\$6,847</u>	<u>\$(15)</u>	<u>\$6,832</u>	<u>\$5,955</u>	<u>\$(6)</u>	<u>\$5,949</u>

(1) Impaired loans with no related valuation allowance primarily represent performing single-family troubled debt restructuring loans and those delinquent loans purchased out of PC pools that have not been impaired subsequent to acquisition.

The average investment in impaired loans was \$6,314 million and \$4,215 million for the three months ended March 31, 2007 and for the year ended December 31, 2006, respectively. The increase in impaired loans for the three months ended March 31, 2007 is attributed to higher serious delinquency rates for loans originated in 2006, which have been principally purchased out of PCs and Structured Securities.

Interest income and management and guarantee income foregone on impaired loans approximated \$38 million and \$7 million for each of the three months ended March 31, 2007 and 2006, respectively.

Loans Acquired in a Transfer

For mortgages that underlie our PCs and Structured Securities, we have the right to purchase the mortgages from those PC and Structured Security loan pools, when the mortgage loans have been past due for 120 days and in certain circumstances sooner, if there have been early indicators of credit deterioration or extraordinary personal or financial hardship events of the borrower. We record loans that we acquire out of PCs and Structured Securities in connection with our repurchase option at fair value as these loans have experienced credit deterioration since origination.

Table 5.3 — Loans Purchased Under Financial Guarantees

	For the Three Months Ended March 31, 2007
	(in millions)
Fair value of loans acquired	<u>\$1,613</u>
Contractual balance of loans acquired	<u>\$1,852</u>
Purchase discount of loans acquired	<u>(239)</u>
Carrying value of loans at acquisition	<u>\$1,613</u>

The carrying amount of these loans recorded on our consolidated balance sheets is included in mortgage loans, held-for-investment and totaled \$3,651 million and \$2,841 million at March 31, 2007 and December 31, 2006, respectively.

Losses on loans purchased on our consolidated statements of income represents losses recorded at initial acquisition of the loans. Once a purchased loan proceeds to foreclosure, the net recovery, if any, of the amounts previously written off at acquisition is included in Other income and totaled \$14 million for the three months ended March 31, 2007. If a borrower obtains third-party refinancing and provides settlement for one of these loans, the net recovery, if any, of the amounts previously written off at acquisition is also included in Other income and totaled \$22 million for the three months ended March 31, 2007.

Delinquency Rates

Table 5.4 summarizes the delinquency performance for our Total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities backed by Ginnie Mae Certificates.

Table 5.4 — Delinquency Performance

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Delinquencies, end of period:		
<i>Single-family:</i> ⁽¹⁾		
Non-credit-enhanced portfolio:		
Delinquency rate	0.25%	0.25%
Total number of delinquent loans	23,511	22,854
Credit-enhanced portfolio:		
Delinquency rate	1.69%	1.86%
Total number of delinquent loans	33,030	36,008
Total portfolio:		
Delinquency rate	0.50%	0.53%
Total number of delinquent loans	56,541	58,862
<i>Multifamily:</i> ⁽²⁾		
Total portfolio:		
Delinquency rate	0.06%	0.05%
Net carrying value of delinquent loans (in millions)	\$ 32	\$ 30

(1) Based on the number of mortgages 90 days or more delinquent or in foreclosure.

(2) Based on net carrying value of mortgages 60 days or more delinquent.

NOTE 6: REAL ESTATE OWNED

For periods presented below, the weighted average holding period for our disposed properties was less than one year. Table 6.1 provides a summary of our REO activity.

Table 6.1 — Real Estate Owned

	<u>Three Months Ended March 31,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>	<u>REO, Gross</u>	<u>Valuation Allowance</u>	<u>REO, Net</u>
	(in millions)					
Beginning balance	\$ 871	\$(128)	\$ 743	\$ 744	\$(115)	\$ 629
Additions	491	(29)	462	354	(20)	334
Dispositions and write-downs	(341)	14	(327)	(324)	15	(309)
Ending balance	<u>\$1,021</u>	<u>\$(143)</u>	<u>\$ 878</u>	<u>\$ 774</u>	<u>\$(120)</u>	<u>\$ 654</u>

We realized losses of \$15 million and \$14 million on REO dispositions for the three months ended March 31, 2007 and 2006, respectively, which are included in REO operations expense. The volume of properties that was added to our REO inventory increased during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, by 14 percent, consistent with the growth of our outstanding guaranteed PCs and Structured Securities. However, due to a slowdown in the U.S. housing market in late 2006 and into 2007, our dispositions of REO have remained consistent as compared to the three months ended March 31, 2006. As a result, we experienced a 32 percent increase in the balance of our REO, gross, since March 31, 2006. Our REO additions have continued to be greatest in the North Central region of the U.S. and more than one-half of our REO balance relates to properties located in this region.

NOTE 7: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities are classified as either due within one year or due after one year based on their remaining contractual maturity. Table 7.1 summarizes the balances and effective interest rates for debt securities and subordinated borrowings.

Table 7.1 — Total Debt Securities, Net

	March 31, 2007			December 31, 2006		
	Par Value	Balance, Net ⁽¹⁾	Effective Rate ⁽²⁾	Par Value	Balance, Net ⁽¹⁾	Effective Rate ⁽²⁾
	(dollars in millions)					
Senior debt, due within one year:						
Reference Bills® securities and discount notes	\$160,021	\$157,819	5.14%	\$159,503	\$157,553	5.14%
Medium-term Notes	6,272	6,272	5.29	9,832	9,832	5.16
Swap collateral obligations	7,913	7,947	5.30	9,552	9,597	5.17
Short-term debt securities	174,206	172,038	5.15	178,887	176,982	5.14
Current portion of long-term debt	108,284	108,204	4.21	117,972	117,879	4.10
Senior debt, due within one year	282,490	280,242	4.79	296,859	294,861	4.73
Senior debt, due after one year ⁽³⁾	506,072	472,638	5.17	484,397	452,677	5.08
Subordinated debt, due after one year ⁽³⁾	5,532	5,224	5.76	6,714	6,400	5.86
Senior and subordinated debt, due after one year	511,604	477,862	5.18	491,111	459,077	5.09
Total debt securities, net	\$794,094	\$758,104		\$787,970	\$753,938	

(1) Represents par value, net of associated discounts, premiums and foreign-currency-related and hedging-related basis adjustments. Swap collateral obligations include the related accrued interest payable.

(2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs, but excludes the amortization of hedging-related basis adjustments.

(3) Balance, Net for Senior debt, due after one year includes callable debt of \$230,571 million and \$220,758 million at March 31, 2007 and December 31, 2006, respectively. Balance, Net for Subordinated debt, due after one year includes callable debt of \$747 million and \$1,928 million at March 31, 2007 and December 31, 2006, respectively.

NOTE 8: STOCKHOLDERS' EQUITY

Stock Repurchase and Issuance Programs

During the three months ended March 31, 2007, we issued \$1.1 billion of 5.57 percent non-cumulative, perpetual preferred stock, including \$0.5 billion to complete the planned replacement of \$2.0 billion of common stock with an equal amount of preferred stock, and \$0.6 billion to replace all outstanding shares of our 6.14 percent non-cumulative, perpetual preferred stock that we had redeemed during the three months ended March 31, 2007. In accordance with OFHEO's capital monitoring framework, we obtained OFHEO's approval for the preferred stock redemption. During April 2007, we issued \$0.5 billion of 5.66 percent non-cumulative, perpetual preferred stock in connection with our plan to replace \$1.0 billion of common stock with an equal amount of preferred stock.

Dividends Declared During the Three Months Ended March 31, 2007

On March 2, 2007, our board of directors declared a quarterly dividend on our common stock of \$0.50 per share and dividends on our preferred stock consistent with the contractual rates and terms shown in "NOTE 9: STOCKHOLDERS' EQUITY — Table 9.1 — Preferred Stock" in our 2006 Information Statement, excluding the redeemed 6.14 percent issuance and including the 5.57 percent issuance referenced above.

NOTE 9: REGULATORY CAPITAL

Table 9.1 summarizes our regulatory capital requirements and surpluses.

Table 9.1 — Regulatory Capital Requirements⁽¹⁾

	March 31, 2007	December 31, 2006
	(in millions)	
<i>Minimum capital requirement</i>	\$26,304	\$25,844
Core capital	36,230	36,170
Minimum capital surplus	9,926	10,326
<i>Critical capital requirement</i>	\$13,484	\$13,237
Core capital	36,230	36,170
Critical capital surplus	22,746	22,933
<i>Risk-based capital requirement⁽²⁾</i>	N/A	\$15,320
Total capital ⁽²⁾	N/A	36,742
Risk-based capital surplus ⁽²⁾	N/A	21,422

(1) OFHEO is the authoritative source of the capital calculations that underlie our capital classifications.

(2) OFHEO determines the amounts reported with respect to our risk-based capital requirement. Amounts for the three months ended March 31, 2007 are not yet available.

Table 9.2 summarizes our compliance with our subordinated debt commitment.

Table 9.2 — Subordinated Debt Commitment

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
	(in millions)	
Total on-balance sheet assets and guaranteed PCs and Structured Securities outstanding target ⁽¹⁾	\$38,093	\$37,576
Total capital plus qualifying subordinated debt	41,383	42,602
Surplus	3,290	5,026

(1) Equals the sum of 0.45 percent of outstanding guaranteed PCs and Structured Securities and 4 percent of on-balance sheet assets.

Table 9.3 summarizes our compliance with the mandatory target capital surplus portion of OFHEO's monitoring framework.

Table 9.3 — Mandatory Target Capital Surplus

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
	(in millions)	
Minimum capital requirement plus 30% add-on	\$34,196	\$33,597
Core capital	36,230	36,170
Surplus	2,034	2,573

NOTE 10: DERIVATIVES

By the end of 2006 we had discontinued nearly all of our cash flow hedge accounting relationships and all of our fair value hedge accounting relationships. We record changes in the fair value of derivatives not in hedge accounting relationships as Derivative gains (losses) on our consolidated statements of income. Any associated interest received or paid is recognized on an accrual basis and also recorded in Derivative gains (losses) on our consolidated statements of income.

During the three months ended March 31, 2007 and 2006, we recognized hedge ineffectiveness gains (losses), related to fair value hedges, of \$— and \$(13) million, respectively, on our consolidated statements of income. No amounts have been excluded from the assessment of effectiveness.

For a derivative accounted for as a cash flow hedge, changes in fair value are reported in AOCI, net of taxes, on our consolidated balance sheets to the extent the hedge is effective.

Table 10.1 presents the changes in AOCI, net of taxes, related to derivatives designated as cash flow hedges. The Net change in fair value related to cash flow hedging activities, net of tax represents the net change in the fair value of the derivatives that were designated as cash flow hedges, after the effects of our statutory tax rate of 35 percent, to the extent the hedges were effective. The Net reclassifications of losses to earnings, net of tax represents the AOCI amount, after the effects of our statutory tax rate of 35 percent, that was recognized in earnings as the originally hedged forecasted transactions affected earnings unless it was deemed probable that the forecasted transaction would not occur. If it is probable that the forecasted transaction will not occur, then the entire deferred gain or loss associated with the hedge related to the forecasted transaction is reclassified into earnings immediately. The total AOCI, net of taxes, related to cash flow hedge relationships was a loss of \$4,794 million and \$5,920 million at March 31, 2007 and 2006, respectively, primarily composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no impact on the deferred portion of AOCI relating to losses on closed cash flow hedges.

Over the next 12 months, we estimate that approximately \$945 million, net of taxes, of the \$4,794 million of cash flow hedging losses in AOCI, net of taxes, at March 31, 2007 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 27 years. However, over 70 percent and 90 percent of the AOCI, net of taxes, relating to cash flow hedges at March 31, 2007 is linked to forecasted transactions occurring in the next 5 and 10 years, respectively.

At March 31, 2007, the only derivatives accounted for as open cash flow hedges were certain commitments to forward sell mortgage-related securities with a notional amount of \$1,407 million and a fair value of \$(4) million.

Table 10.1 — AOCI, Net of Taxes, Related to Cash Flow Hedge Relationships

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Beginning balance ⁽¹⁾	\$(5,033)	\$(6,287)
Net change in fair value related to cash flow hedging activities, net of tax ⁽²⁾	(2)	10
Net reclassifications of losses to earnings, net of tax ⁽³⁾	241	357
Ending balance ⁽¹⁾	<u>\$(4,794)</u>	<u>\$(5,920)</u>

(1) Represents the effective portion of the fair value of open derivative contracts (*i.e.*, net unrealized gains and losses) and net deferred gains and losses on closed (*i.e.*, terminated or redesignated) cash flow hedges.

(2) Net of tax (benefit) expense of \$(1) million and \$5 million for the three months ended March 31, 2007 and 2006, respectively.

(3) Net of tax benefit of \$130 million and \$164 million for the three months ended March 31, 2007 and 2006, respectively.

NOTE 11: LEGAL CONTINGENCIES

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell mortgages to us and service mortgages for us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions.

We are subject to various other legal proceedings, including regulatory investigations and administrative and civil litigation, arising from the restatement of our previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002 (collectively referred to as the "restatement"). In 2005, we recorded a \$339 million expense related to our litigation reserves for legal settlements, including our settlement of the securities class action lawsuits and the shareholder derivative lawsuits, discussed below, and the Federal Election Commission investigation. We maintain reserves for the amount of the estimated probable loss in connection with the remaining legal proceedings related to the restatement. During the three months ended March 31, 2006, we recorded a \$25 million reduction in our reserves for this loss contingency. Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. Any additional losses that might result from the adverse resolution of any of the remaining legal proceedings could be greater than our current reserves.

SEC Investigation. In June 2003, the SEC initiated a formal investigation of Freddie Mac in connection with the restatement. On August 18, 2004, we announced that we had received a "Wells Notice" from the staff of the SEC. The Wells Notice advised us that the SEC staff is considering recommending that the SEC initiate a civil injunctive action against us for possible violations of federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934 and the SEC's Rule 10b-5, as well as Sections 17(a)(1), (2) and (3) of the Securities Act of 1933. The Wells Notice also indicated that the SEC staff may seek a permanent injunction and a civil money penalty in connection with the contemplated action. We continue to cooperate fully with the SEC's investigation.

Securities Class Action Lawsuits. In June 2003 and thereafter, securities class action lawsuits were brought in three separate federal courts against us and certain former executive officers in connection with the restatement which were eventually consolidated in the U.S. District Court for the Southern District of New York. The plaintiffs claimed that the defendants improperly managed earnings to create a misleading impression of steady earnings by Freddie Mac, that they engaged in a number of improper transactions that violated GAAP and that they made false and misleading statements regarding the same. On October 26, 2006, the court approved a settlement of the securities class action lawsuits, as well as the shareholder derivative actions described below. The settlement of these actions included a cash payment of \$410 million. The settlement does not include any admission of wrongdoing by us.

Shareholder Derivative Lawsuits. Two shareholder derivative lawsuits were filed during 2003 against certain former and current executives and, in one of the suits, certain former and current members of the board of directors and five counterparties. The plaintiffs alleged claims for breach of fiduciary duties, indemnification, waste of corporate assets, unjust enrichment and aiding and abetting breach of fiduciary duties in connection with the restatement. Both cases were ultimately assigned to the same judge in New York who handled the securities class action lawsuits described above. As

described above, on October 26, 2006, the court approved a settlement of both shareholder derivative actions, as well as the securities class action lawsuits. The settlement of these cases was based in part on corporate governance reforms we instituted under our current management.

OFHEO Proceedings. In December 2003, OFHEO filed administrative notices of charges against us and Messrs. Brendsel and Clarke, two of our former executive officers. In its charge against us, OFHEO sought to have us take certain actions in connection with these individuals' salaries and compensation as well as their termination status with us. On September 9, 2005, we entered into a stipulated consent order with OFHEO to settle the administrative notice of charges against us. Under the terms of the consent order, we agreed to produce certain documents and make available any current employees that OFHEO requests to interview in connection with its ongoing administrative actions against Messrs. Brendsel and Clarke and to take certain additional steps following the administrative actions against the former officers in accordance with any final order resulting in those actions. In agreeing to the consent order, we made no admission regarding any wrongdoing by us. Based on the consent order, OFHEO has dismissed the administrative notice of charges against us, and we have produced certain documents for OFHEO's review and made numerous current employees available for interviews at OFHEO's request.

Antitrust Lawsuits. Consolidated lawsuits were filed against Fannie Mae and us in the U.S. District Court for the District of Columbia, originally filed on January 10, 2005, alleging that both companies conspired to establish and maintain artificially high guarantee fees. The complaint covers the period January 1, 2001 to the present and asserts a variety of claims under federal and state antitrust laws, as well as claims under consumer-protection and similar state laws. The plaintiffs seek injunctive relief, unspecified damages (including treble damages with respect to the antitrust claims and punitive damages with respect to some of the state claims) and other forms of relief. We filed a motion to dismiss the action and are awaiting a ruling from the court. At present, it is not possible for us to predict the probable outcome of the consolidated lawsuit or any potential impact on our business, financial condition or results of operations.

Other Inquiries. We receive inquiries from the IRS in connection with its regular audits of our tax returns for prior years, some of which relate to matters connected with the restatement. We continue to respond to these inquiries.

NOTE 12: INCOME TAXES

For the three months ended March 31, 2007 and 2006, we reported income tax benefits of \$439 million and \$115 million, respectively.

During the three months ended March 31, 2006, we recorded book income, however we recognized a tax benefit primarily as a result of our application of FIN No. 18, "Accounting for Income Taxes in Interim Periods, an interpretation of APB Opinion No. 28." In 2006, and other years since the restatement, we did not release interim financial statements. As a result, for the three months ended March 31, 2006 our actual 2006 annual effective income tax rate was used since the actual annual effective tax rate was our best estimate of the effective income tax rate for that period. We cannot estimate our annual effective tax rate for 2007 as we are unable to produce a reliable forecast of book income for 2007. Therefore, for the three months ended March 31, 2007, we used our year-to-date actual effective income tax rate to account for income taxes which represents our best estimate of our 2007 annual effective income tax rate.

NOTE 13: EMPLOYEE BENEFITS

Table 13.1 presents the components of the net periodic benefit cost with respect to pension and postretirement health care benefits for the three months ended March 31, 2007 and 2006. Net periodic benefit cost is included in Salaries and employee benefits on our consolidated statements of income.

Table 13.1 — Net Periodic Benefit Cost Detail

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
<u>Pension Benefits</u>		
Service cost	\$ 8	\$ 8
Interest cost on benefit obligation	8	7
Expected (return) loss on plan assets	(9)	(6)
Recognized net actuarial (gain) loss	1	1
Net periodic benefit cost	<u>\$ 8</u>	<u>\$10</u>
<u>Postretirement Health Care Benefits</u>		
Service cost	\$ 2	\$ 2
Interest cost on benefit obligation	2	2
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 4</u>

Table 13.2 presents the changes in AOCI, net of taxes, related to our defined benefit plans recorded to AOCI for the three months ended March 31, 2007, after the effects of our statutory tax rate of 35 percent.

Table 13.2 — AOCI, Net of Taxes, Related to Defined Benefit Plans

	<u>Three Months Ended March 31, 2007</u> (in millions)
Beginning balance	\$(87)
Amounts recognized in AOCI, net of tax:	
Recognized net gain (loss) ⁽¹⁾	5
Net reclassification adjustments, net of tax: ⁽²⁾	
Recognized net (gain) loss	<u>1</u>
Ending balance	<u>\$(81)</u>

(1) Amount represents the correction of deferred taxes related to previously recorded Medicare Part D subsidies from prior years.

(2) Net reclassification adjustments, net of tax, represents amounts subsequently recognized as adjustments to other comprehensive income as those amounts are recognized as components of net periodic benefit cost.

Cash Flows Related to Defined Benefit Plans

Our general practice is to contribute to our Pension Plan an amount equal to at least the minimum required contribution, if any, but no more than the maximum amount deductible for federal income tax purposes each year. We have not yet determined whether a contribution to our Pension Plan is required for 2007.

NOTE 14: FAIR VALUE DISCLOSURES

The supplemental consolidated fair value balance sheets in Table 14.1 present our estimates of the fair value of our recorded financial assets and liabilities and off-balance sheet financial instruments at March 31, 2007 and December 31, 2006, respectively. The valuations of financial instruments on our consolidated fair value balance sheets are in accordance with GAAP fair value guidelines prescribed by SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” or SFAS 107, and other relevant pronouncements.

Table 14.1 — Consolidated Fair Value Balance Sheets⁽¹⁾

	March 31, 2007		December 31, 2006	
	Carrying Amount ⁽²⁾	Fair Value ⁽³⁾	Carrying Amount ⁽²⁾	Fair Value ⁽³⁾
	(in billions)			
Assets				
Mortgage loans	\$ 66.7	\$ 65.6	\$ 65.6	\$ 65.4
Mortgage-related securities excluding PC residuals	645.0	645.0	634.3	634.3
PC residuals	0.3	0.3	0.6	0.6
Retained portfolio	712.0	710.9	700.5	700.3
Cash and cash equivalents	10.0	10.0	11.4	11.4
Investments	31.9	31.9	45.6	45.6
Securities purchased under agreements to resell and Federal funds sold	34.2	34.2	23.0	23.0
Derivative assets	6.2	6.2	7.9	7.9
Guarantee asset ⁽⁴⁾	6.3	6.6	6.1	6.4
Other assets ⁽⁵⁾	19.2	18.4	18.6	16.7
Total assets	<u>\$819.8</u>	<u>\$818.2</u>	<u>\$813.1</u>	<u>\$811.3</u>
Liabilities and minority interests				
Total debt securities, net	\$758.1	\$757.8	\$753.9	\$752.3
Guarantee obligation	7.8	5.7	7.1	4.7
Derivative liabilities	0.2	0.2	0.2	0.2
Reserve for guarantee losses on PCs	0.5	—	0.4	—
Other liabilities	22.9	22.1	22.7	21.8
Minority interests in consolidated subsidiaries	0.5	0.5	0.5	0.5
Total liabilities and minority interests	790.0	786.3	784.8	779.5
Net assets attributable to stockholders				
Preferred stockholders	6.6	6.5	6.1	5.8
Common stockholders	23.2	25.4	22.2	26.0
Total net assets	<u>29.8</u>	<u>31.9</u>	<u>28.3</u>	<u>31.8</u>
Total liabilities and net assets	<u>\$819.8</u>	<u>\$818.2</u>	<u>\$813.1</u>	<u>\$811.3</u>

- (1) The consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.
- (2) Carrying amounts equal the amounts reported on our GAAP consolidated balance sheets.
- (3) Methodologies employed to calculate fair values are periodically changed on a prospective basis to reflect improvements in the underlying estimation processes. The estimated impact of these improvements resulted in net after-tax changes to the fair value of Total net assets of approximately \$0.1 billion at March 31, 2007 and that rounded to zero at December 31, 2006.
- (4) The fair value of the Guarantee asset reported exceeds the carrying value primarily because the fair value includes the Guarantee asset related to some PCs held by third parties that are not recognized on our GAAP consolidated balance sheets because such PCs were issued prior to the implementation of FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34” in 2003.
- (5) Fair values include estimated income taxes calculated using the 35 percent statutory rate on the difference between the consolidated fair value balance sheets net assets, including deferred taxes from our GAAP consolidated balance sheets, and the GAAP consolidated balance sheets equity attributable to common stockholders.

NOTE 15: EARNINGS PER COMMON SHARE

Because we have participating securities, we use the “two-class” method of computing earnings per share. Basic earnings per common share are computed by dividing Net income (loss) available to common stockholders by Weighted average common shares outstanding — Basic for the period. Diluted earnings per common share are computed as Net income (loss) available to common stockholders divided by Weighted average common shares outstanding — Diluted for the period, which consider the effect of dilutive common equivalent shares outstanding. The effect of dilutive common equivalent shares outstanding includes: (a) the weighted average shares related to stock options (including the Employee Stock Purchase Plan) that have an exercise price lower than the average market price during the period; (b) the weighted average of non-vested restricted shares; and (c) all restricted stock units. Such items are excluded from Weighted average common shares outstanding — Basic.

For the three months ended March 31, 2007, there were approximately 2.1 million of dilutive common equivalent weighted average shares outstanding that could have potentially diluted earnings per common share but were excluded due to their antidilutive effect. Options to purchase 1.8 million weighted average shares of common stock were excluded from the calculation of diluted earnings per common share because the options’ exercise price exceeded the average market price of the common stock for the three months ended March 31, 2007.

For the three months ended March 31, 2006, there were approximately 1.8 million of dilutive common equivalent weighted average shares outstanding that could have potentially diluted earnings per common share. Options to purchase 0.7 million weighted average shares of common stock were excluded from the computation of Diluted earnings per common share at March 31, 2006 because the options’ exercise price exceeded the average market price of the common stock for the three months ended March 31, 2006.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including this Information Statement Supplement, contain “forward-looking statements” pertaining to our current expectations and objectives for financial reporting, remediation efforts, future business plans, market share, credit losses, prepayments, results of operations and financial condition on both a GAAP and fair value basis, and market trends and developments. Forward-looking statements are often accompanied by, and identified with, terms such as “will,” “expect,” “uncertainty,” “imply,” “evolve,” “believe,” “ability,” “trend,” “efforts,” “assumptions,” “judgments,” “models,” “developments,” “estimates,” “continue,” “affect,” “currently,” “priorities,” “remain,” “ongoing,” “plan,” “outlook,” “over time,” “future,” “seek,” “potential,” “objective,” “long-term,” “near-term,” “ultimately,” “goal,” “may,” “should,” “likely,” “if,” “generally,” and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should be careful about relying on any forward-looking statements and should also consider all risks, uncertainties and other factors described in this Information Statement Supplement and our 2006 Information Statement in considering any forward-looking statements. Actual results may differ materially from the expectations expressed in these and other forward-looking statements we make as a result of various factors, including those factors described in the “RISK FACTORS” section of our 2006 Information Statement and:

- our ability to effectively and timely implement our remediation plans, including those efforts undertaken as a result of the restatement of our consolidated financial statements and the consent order entered into with OFHEO, particularly initiatives relating to technical infrastructure and controls over financial reporting;
- our ability to effectively identify, manage, mitigate or remediate control deficiencies, including material weaknesses and significant deficiencies, in our internal control over financial reporting;
- changes in applicable legislative or regulatory requirements, including regulation of the subprime market or enactment of GSE oversight legislation, changes to our charter, changes to affordable housing goals regulation, changes to regulatory capital requirements or the exercise or assertion of regulatory or administrative authority beyond historical practice;
- our ability to effectively implement our business strategies and manage the risks in our business, including our efforts to improve the supply and liquidity of, and demand for, our products;
- changes in our assumptions or estimates regarding rates of growth in our business, spreads we expect to earn, required capital levels and the timing and impact of capital transactions;
- our ability to effectively manage and implement changes, developments or impacts of accounting or tax standards and interpretations or changes to our accounting policies or estimates, generally;
- the availability of debt financing and equity capital in sufficient quantity and at attractive rates to support growth in our Retained portfolio, to refinance maturing debt and to meet regulatory capital requirements;
- changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques or their respective reliability;
- volatility of reported results due to changes in fair value of certain instruments or assets;
- our ability to effectively identify and manage interest-rate and other market risks and credit risk, including the effectiveness of available credit enhancements and our loss mitigation strategies;
- changes in general regional, national or international economic, business or market conditions and competitive pressures, including consolidation of mortgage originators, employment rates and home price appreciation;
- changes in mortgage-to-debt OAS;
- the availability of options, interest-rate and currency swaps and other derivative financial instruments of the types and quantities and with acceptable counterparties needed for investment funding and risk management purposes;
- the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market;
- preferences of originators in selling into the secondary market;
- borrower preferences for fixed-rate mortgages or ARMs;
- investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;
- the ability of our financial, accounting, data processing and other operating systems or infrastructure and those of our vendors to process the complexity and volume of our transactions;

- the occurrence of a major natural or other disaster in geographic areas in which portions of our Total mortgage portfolio are concentrated;
- other factors and assumptions described in this Information Statement Supplement or 2006 Information Statement, including in the “MD&A” section;
- our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and
- market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Information Statement Supplement or to reflect the occurrence of unanticipated events.

CONTROLS AND PROCEDURES

See “MD&A — RISK MANAGEMENT — Operational Risks — *Disclosure Controls and Procedures*” and “— *Internal Control Over Financial Reporting*.”

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. For a description of certain of our legal proceedings, see “NOTE 11: LEGAL CONTINGENCIES” to our consolidated financial statements for more information regarding our involvement as a party to various legal proceedings.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

The securities we issue are “exempted securities” under the Securities Act and the Exchange Act. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

During the three months ended March 31, 2007, we completed one preferred stock offering, underwritten by a syndicate of dealers headed by Goldman Sachs and Co. and J.P. Morgan Securities Inc. for aggregate offering proceeds of \$1.1 billion and an aggregate underwriting discount of \$11 million. See “NOTE 8: STOCKHOLDERS’ EQUITY” to our consolidated financial statements for more information.

We regularly provide stock compensation to our employees and members of our board of directors. We have three stock-based compensation plans under which grants are currently being made: (a) the Employee Stock Purchase Plan, or ESPP; (b) the 2004 Stock Compensation Plan, or 2004 Employee Plan; and (c) the 1995 Directors’ Stock Compensation Plan, as amended and restated, or Directors’ Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans.

During the three months ended March 31, 2007, options for 123,361 shares of common stock were exercised and no stock options were granted under our Employee Plans and Directors’ Plan. Under our ESPP, options to purchase 52,116 shares of common stock were exercised and options to purchase 58,504 shares of common stock were granted. Further, for the three months ended March 31, 2007, under the Employee Plans and Directors’ Plan, 1,373,823 restricted stock units were granted and restrictions lapsed on 182,880 restricted stock units. See “NOTE 11: STOCK-BASED COMPENSATION” to our consolidated financial statements in our 2006 Information Statement for more information.

See “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements in our 2006 Information Statement for a description of our regulatory capital requirements and possible regulatory restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

During the three months ended March 31, 2007, in connection with our previously-announced plan to replace \$1.0 billion of common stock with an equal amount of non-cumulative perpetual preferred stock, we began the repurchase of our outstanding common stock. However, no repurchases settled prior to March 31, 2007. Table 31 sets forth our common share repurchase activity during the three months ended March 31, 2007. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources” for additional information.

Table 31 — Common Share Repurchase Activity for the Three Months Ended March 31, 2007

Period	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (in millions)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program ⁽¹⁾ (in millions)
January	—	\$ —	—	\$ —
February	—	—	—	—
March	—	—	—	1,000
Total	—	—	—	

(1) On March 23, 2007, we announced that our board of directors had authorized us to repurchase up to \$1 billion of outstanding shares of common stock.

OTHER INFORMATION

Amendments to Bylaws

On June 8, 2007, our board of directors approved several amendments to our bylaws, effective immediately. Those changes (other than minor textual changes that clarify current bylaw provisions) are summarized below:

- Sections 2.06 and 3.03 were amended to change the date by which stockholders who intend to propose other business to be conducted at our annual meeting of stockholders (Section 2.06) or who intend to nominate directors at our annual meeting of stockholders (Section 3.03) must deliver advance written notice to Freddie Mac of their proposal or director nominee. As amended, we must receive such stockholder notice no fewer than 75 days prior to the annual meeting. In addition, in the event that stockholders are provided with fewer than 90 days notice or prior public disclosure of the date of the annual meeting, such stockholder notice must be received by us no later than 15 days following the day on which notice of the date of the annual meeting was mailed or public disclosure was made, whichever occurs first. Sections 2.06 and 3.03 also were amended to clarify the requirements for proof of ownership to be provided by the proposing stockholder.
- Section 3.11 was amended to clarify the process by which a secretary is appointed for meetings of the board of directors.
- Section 3.13 was amended to clarify that the board of directors must appoint any subcommittee of the board that will exercise the power and authority of the board.
- Section 3.14 was added to clarify the process concerning director resignations.
- Section 6.01 (b) was amended to provide that a stockholder must submit proof of ownership in connection with a request to inspect certain corporate records.
- Sections 8.01 (a) and (e) were amended to clarify that (i) the indemnification provisions of the bylaws apply to derivative actions or actions brought by the corporation and (ii) our mandatory indemnification obligation applies to directors and indemnitees who entirely prevail in the defense of the applicable proceeding.
- Several sections of the bylaws were updated to reflect recent amendments to the Virginia Stock Corporation Act, including (i) Section 2.07, which provides that an abstention or an election by a stockholder not to vote on a matter at a stockholder meeting because of a failure to receive voting instructions from the beneficial owner of the shares shall not be considered a “vote cast” on the matter, and (ii) Section 7.01, which concerns the procedure pursuant to which stockholders of record will be deemed to have consented to the “householding” of proxy materials.

The amended bylaws are available on the investor relations page of our website at www.freddiemac.com/investors.

Change in Director Nomination Process

As described above, on June 8, 2007, our board of directors approved an amendment to our bylaws that changed the date by which stockholders who intend to nominate directors at our annual meeting of stockholders must deliver advance written notice to Freddie Mac of their director nominee. This amendment is effective immediately.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our voluntary adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with OFHEO that updated these commitments and set forth a process for implementing them. The letters between the company and OFHEO dated September 1, 2005 constituting the written agreement are available on the Investor Relations page of our website at www.freddiemac.com/investors/reports.html#commit. As noted in these letters, disclosures may be affected by situations for which current financial statements are not available. The status of our commitments at March 31, 2007 follows:

Description	Status
<p>1. <i>Periodic Issuance of Subordinated Debt:</i></p> <ul style="list-style-type: none"> • We will issue Freddie SUBS[®] securities for public secondary market trading that are rated by no less than two nationally recognized statistical rating organizations. • Freddie SUBS[®] securities will be issued in an amount such that the sum of Total capital (Core capital plus general allowance for losses) and the outstanding balance of “Qualifying subordinated debt” will equal or exceed the sum of <ul style="list-style-type: none"> (i) 0.45 percent of outstanding PCs and Structured Securities we guaranteed and (ii) 4 percent of total on-balance sheet assets. Qualifying subordinated debt is discounted by one-fifth each year during the instrument’s last five years before maturity; when the remaining maturity is less than one year, the instrument is entirely excluded. We will take reasonable steps to maintain outstanding subordinated debt of sufficient size to promote liquidity and reliable market quotes on market values. • Each quarter we will submit to OFHEO calculations of the quantity of qualifying Freddie SUBS[®] securities and Total capital as part of our quarterly capital report. • Every six months, we will submit to OFHEO a subordinated debt management plan that includes any issuance plans for the six months following the date of the plan. 	<ul style="list-style-type: none"> • During the three months ended March 31, 2007, we did not issue any Freddie SUBS[®] securities, however we called \$1.2 billion of Freddie SUBS[®] securities. • We reported to OFHEO that at March 31, 2007, we had \$41.4 billion in Total capital plus qualifying subordinated debt, resulting in a surplus of \$3.3 billion. We have submitted our March 31, 2007 quarterly Total capital plus qualifying subordinated debt report to OFHEO. • We have submitted our semi-annual subordinated debt management plan to OFHEO.
<p>2. <i>Liquidity Management and Contingency Planning:</i></p> <ul style="list-style-type: none"> • We will maintain a contingency plan providing for at least three months’ liquidity without relying upon the issuance of unsecured debt. We will also periodically test the contingency plan in consultation with OFHEO. 	<ul style="list-style-type: none"> • We have in place a liquidity contingency plan, upon which we report to OFHEO on a weekly basis. We periodically test this plan in accordance with our agreement with OFHEO.
<p>3. <i>Interest-Rate Risk Disclosures:</i></p> <ul style="list-style-type: none"> • We will provide public disclosure of our duration gap, PMVS-L and PMVS-YC interest-rate risk sensitivity results on a monthly basis. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks — <i>Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk</i>” in our 2006 Information Statement for a description of these metrics. 	<ul style="list-style-type: none"> • For the three months ended March 31, 2007, our duration gap averaged zero months, PMVS-L averaged 1 percent and PMVS-YC averaged zero percent. Our 2007 monthly average duration gap, PMVS results and related disclosures are provided in our Monthly Volume Summary which is available on our website, www.freddiemac.com/investors/volsum.

Description	Status																																												
<p>4. <i>Credit Risk Disclosures:</i></p> <ul style="list-style-type: none"> We will make quarterly assessments of the impact on expected credit losses from an immediate 5 percent decline in single-family home prices for the entire U.S. We will disclose the impact in present value terms and measure our losses both before and after receipt of private mortgage insurance claims and other credit enhancements. 	<ul style="list-style-type: none"> Our quarterly credit risk sensitivity estimates are as follows: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2" style="text-align: center;">Before Receipt of Credit Enhancements⁽¹⁾</th> <th colspan="2" style="text-align: center;">After Receipt of Credit Enhancements⁽²⁾</th> </tr> <tr> <th style="text-align: center;">Net Present Value, or NPV⁽³⁾</th> <th style="text-align: center;">NPV Ratio⁽⁴⁾</th> <th style="text-align: center;">NPV⁽³⁾</th> <th style="text-align: center;">NPV Ratio⁽⁴⁾</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;">(dollars in millions)</td> </tr> <tr> <td>At:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>03/31/07</td> <td style="text-align: right;">\$1,327</td> <td style="text-align: right;">8.6 bps</td> <td style="text-align: right;">\$929</td> <td style="text-align: right;">6.0 bps</td> </tr> <tr> <td>12/31/06</td> <td style="text-align: right;">\$1,128</td> <td style="text-align: right;">7.6 bps</td> <td style="text-align: right;">\$770</td> <td style="text-align: right;">5.2 bps</td> </tr> <tr> <td>09/30/06</td> <td style="text-align: right;">\$1,071</td> <td style="text-align: right;">7.4 bps</td> <td style="text-align: right;">\$724</td> <td style="text-align: right;">5.0 bps</td> </tr> <tr> <td>06/30/06</td> <td style="text-align: right;">\$1,018</td> <td style="text-align: right;">7.2 bps</td> <td style="text-align: right;">\$686</td> <td style="text-align: right;">4.9 bps</td> </tr> <tr> <td>03/31/06</td> <td style="text-align: right;">\$ 915</td> <td style="text-align: right;">6.6 bps</td> <td style="text-align: right;">\$598</td> <td style="text-align: right;">4.3 bps</td> </tr> </tbody> </table> <p>(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses. (2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates. (3) Based on single-family Total mortgage portfolio, excluding Structured Securities backed by Ginnie Mae Certificates. (4) Calculated as the ratio of net present value of increase in credit losses to the single-family Total mortgage portfolio, defined in footnote (3) above.</p>		Before Receipt of Credit Enhancements ⁽¹⁾		After Receipt of Credit Enhancements ⁽²⁾		Net Present Value, or NPV ⁽³⁾	NPV Ratio ⁽⁴⁾	NPV ⁽³⁾	NPV Ratio ⁽⁴⁾	(dollars in millions)					At:					03/31/07	\$1,327	8.6 bps	\$929	6.0 bps	12/31/06	\$1,128	7.6 bps	\$770	5.2 bps	09/30/06	\$1,071	7.4 bps	\$724	5.0 bps	06/30/06	\$1,018	7.2 bps	\$686	4.9 bps	03/31/06	\$ 915	6.6 bps	\$598	4.3 bps
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<p>5. <i>Public Disclosure of Risk Rating:</i></p> <ul style="list-style-type: none"> We will seek to obtain a rating, that will be continuously monitored by at least one nationally recognized statistical rating organization, assessing our “risk-to-the-government” or independent financial strength. 	<ul style="list-style-type: none"> At June 1, 2007 and March 31, 2007, our “risk-to-the-government” rating from S&P was “AA–” and Moody’s Bank Financial Strength Rating for us was “A–”. 																																												

EXHIBITS
CERTIFICATION*

I, Richard F. Syron, certify that:

1. I have reviewed this Information Statement Supplement of Freddie Mac;
2. Based on my knowledge, this Information Statement Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information Statement Supplement; and
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this Information Statement Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Freddie Mac as of, and for, the periods presented in this Information Statement Supplement.

Date: June 14, 2007



Richard F. Syron
Chairman and Chief Executive Officer

CERTIFICATION*

I, Anthony S. Pizsel, certify that:

1. I have reviewed this Information Statement Supplement of Freddie Mac;
2. Based on my knowledge, this Information Statement Supplement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information Statement Supplement; and
3. Based on my knowledge, the unaudited consolidated financial statements, and other financial information included in this Information Statement Supplement, fairly present in all material respects the financial condition, results of operations and cash flows of Freddie Mac as of, and for, the periods presented in this Information Statement Supplement.

Date: June 14, 2007



Anthony S. Pizsel
Executive Vice President and Chief Financial Officer

* For a discussion of our progress with respect to our internal control over financial reporting and disclosure controls and procedures, see “MD&A — RISK MANAGEMENT — Operational Risks — *Internal Control over Financial Reporting*” and the comparably captioned section of our 2006 Information Statement.

RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended		Year Ended December 31,				
	March 31,		2006	2005	2004	2003	2002
	2007 ⁽¹⁾	2006					
	(dollars in millions)						
Net income (loss) before cumulative effect of changes in accounting principles	\$ (211)	\$ 2,009	\$ 2,211	\$ 2,189	\$ 2,937	\$ 4,816	\$10,090
Add:							
Income tax expense (benefit)	(439)	(115)	(108)	367	790	2,202	4,713
Minority interests in earnings of consolidated subsidiaries	9	18	58	96	129	157	184
Low-income housing tax credit partnerships	108	115	407	320	281	200	160
Total interest expense	9,487	8,539	37,270	29,899	26,566	26,509	26,876
Interest factor in rental expenses	2	2	6	6	6	5	5
Earnings, as adjusted	<u>\$8,956</u>	<u>\$10,568</u>	<u>\$39,844</u>	<u>\$32,877</u>	<u>\$30,709</u>	<u>\$33,889</u>	<u>\$42,028</u>
Fixed charges:							
Total interest expense	\$9,487	\$ 8,539	\$37,270	\$29,899	\$26,566	\$26,509	\$26,876
Interest factor in rental expenses	2	2	6	6	6	5	5
Capitalized interest	—	—	—	—	1	—	1
Total fixed charges	<u>\$9,489</u>	<u>\$ 8,541</u>	<u>\$37,276</u>	<u>\$29,905</u>	<u>\$26,573</u>	<u>\$26,514</u>	<u>\$26,882</u>
Ratio of earnings to fixed charges ⁽²⁾	—	1.24	1.07	1.10	1.16	1.28	1.56

(1) For the Ratio of earnings to fixed charges to equal 1.00, Earnings, as adjusted must increase by \$533 million.

(2) Ratio of earnings to fixed charges is computed by dividing Earnings, as adjusted by Total fixed charges.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Three Months Ended		Year Ended December 31,				
	March 31,		2006	2005	2004	2003	2002
	2007 ⁽¹⁾	2006					
	(dollars in millions)						
Net income (loss) before cumulative effect of changes in accounting principles	\$ (211)	\$ 2,009	\$ 2,211	\$ 2,189	\$ 2,937	\$ 4,816	\$10,090
Add:							
Income tax expense (benefit)	(439)	(115)	(108)	367	790	2,202	4,713
Minority interests in earnings of consolidated subsidiaries	9	18	58	96	129	157	184
Low-income housing tax credit partnerships	108	115	407	320	281	200	160
Total interest expense	9,487	8,539	37,270	29,899	26,566	26,509	26,876
Interest factor in rental expenses	2	2	6	6	6	5	5
Earnings, as adjusted	<u>\$8,956</u>	<u>\$10,568</u>	<u>\$39,844</u>	<u>\$32,877</u>	<u>\$30,709</u>	<u>\$33,889</u>	<u>\$42,028</u>
Fixed charges:							
Total interest expense	\$9,487	\$ 8,539	\$37,270	\$29,899	\$26,566	\$26,509	\$26,876
Interest factor in rental expenses	2	2	6	6	6	5	5
Capitalized interest	—	—	—	—	1	—	1
Preferred stock dividends ⁽²⁾	278	58	270	261	266	315	351
Total fixed charges including preferred stock dividends	<u>\$9,767</u>	<u>\$ 8,599</u>	<u>\$37,546</u>	<u>\$30,166</u>	<u>\$26,839</u>	<u>\$26,829</u>	<u>\$27,233</u>
Ratio of earnings to combined fixed charges and preferred stock dividends ⁽³⁾	—	1.23	1.06	1.09	1.14	1.26	1.54

(1) For the Ratio of earnings to combined fixed charges and preferred stock dividends to equal 1.00, Earnings, as adjusted must increase by \$811 million.

(2) Preferred stock dividends represent pre-tax earnings required to cover any preferred stock dividend requirements using our effective tax rate for the relevant periods.

(3) Ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing Earnings, as adjusted by Total fixed charges including preferred stock dividends.